Revenue

Introduction

For FY 2004, the District estimates its total revenue (prior to the Mayor's revenue initiatives) at $3,699 million, $3,340 from taxes and about $359 million from non-tax (fees and charges) and other sources. Total revenues increased by $159 million over FY 2003. Two forces are very important in explaining changes in, and the movement of, revenues over time. The first force is the structure of the revenue system. Structural factors include the ability of the District to tax income earned in the District, the value of the aid received by the District from the federal government, and the competition the District faces from its surrounding suburban jurisdictions. The structure of the revenue system determines its long-term ability to fund needed public sector goods and services. The District of Columbia faces a situation that makes it a major challenge to keep revenue growth on pace with expenditure needs.

The second force is the cyclical movement of the economy. Economic growth ebbs and flows. During periods of growth and expansion, revenue grows, sometimes at very rapid rates. During periods of recession, economic growth slows and sometimes even becomes negative. During these periods, the growth of revenues slows and sometimes even declines. We have just completed a period of rapid economic growth. Fiscal year 2003 can be characterized as a period of slow economic growth and recession. Revenue growth has slowed. Recovery is predicted for fiscal year 2004 through fiscal year 2007, and revenues are predicted to grow, but at a slower rate than during the late 1990s.

This chapter begins with a discussion of this critical structural issue. A narrative that identifies the major factors underlying the revenue projections for fiscal years 2003 through 2007 follows this discussion. The chapter concludes with a presentation of the FY 2003 through FY 2007 revenue projections by source.

Structural Imbalance

A structural imbalance exists when the structure of a jurisdiction's revenue system and expenditure system compels a long-run mismatch between a jurisdiction's revenues and expenditures. When a jurisdiction faces a structural imbalance, expected revenues are insufficient to meet the jurisdiction's projected spending needs because of systemic problems, not short-term cyclical conditions. A structural imbalance reflects underlying economic and financial constraints that do not come and go with the business cycle. The existence of a structural imbalance in the District of Columbia does not mean that the District's budget is out of balance, nor does it tell us how efficiently money is spent. Rather, the structural imbalance precludes the District from solving its revenue problems through revenue and expenditure adjustments or efficiency improvements alone. A structural change in the system is required.

Concern about the District's structural

imbalance is not a recent development. The costs imposed on the District by the federal presence were recognized in the U.S. Senate's review of these costs (U.S. Senate, Public Act 268) in 1916. The 1986 Brimmer report documented the decline of the federal payment over time, and the 1990 Rivlin Commission report also raised the issue of the District's structural imbalance. Two recent studies on the District's finances recognize the unique difficulties faced by the Nation's capital. McKinsey & Company's March 2002 report to the Federal City Council (*Assessing the District of Columbia's Financial Position*) concluded that the District "faces substantial structural constraints and burdens by virtue of its status as the nation's capital." Carol O'Cleireacain and Alice Rivlin's October 2002 Brookings Institution report (*A Sound Fiscal Footing for the Nation's Capital: A Federal Responsibility*) also acknowledged "the unique status of the District of Columbia and the fiscal restrictions placed on it by the federal government."

Why Does the District Have a Structural Imbalance?

The District of Columbia's multiple roles make it a unique jurisdiction among the nearly 88,000 governmental units in the United States. The District is an urban core city, it provides many state-type services, and it is the location of the national capital. Each role has an impact on the District's finances, affecting the types of services the District provides and the revenue base available for funding expenditures.

The District's Role as a City. The District is a city within a large metropolitan area. As a city, the District provides a typical set of city services, including public safety, education, and public works. Its economy and demographics differ from the rest of the Washington, D.C. metropolitan area and necessitate increased expenditures.

A typical city receives most of its revenue from property taxes. Though not the District's largest source of revenue, property taxes account for nearly one-fourth of the District's general fund revenue. But the District's real property tax base is severely constrained. Over half of the District's real property, by area, cannot be taxed because it is either federal property, or other tax-exempt property.

In the seven other cities examined in the McKinsey report, the average level of federal and state tax-exempt property amounted to only 10 percent of assessed value. The McKinsey report also noted that the overall level of the District's tax-exempt property (40 percent of the total assessed value) was high relative to the comparison cities where the proportion of tax-exempt property was generally in the 15 to 30 percent range.

Providing State-Type Services. Unlike other cities, the District is not part of any state. Consequently, the District must provide state-type services to its citizens along with the city-type services. While it must provide these state services, it does not have the tax base typical of a state. Unlike states, the District cannot tax income earned by all those working within its borders. A resident of New Jersey who works in Manhattan pays taxes to the state of New York and has the amount paid to New York credited against the amount he or she owes New Jersey. The District, by contrast, collects no tax revenue from the thousands of Maryland and Virginia residents who come to the District everyday to work. Furthermore, state governments use income tax revenue from suburbs to support the urban core and poorer rural areas. In the Washington metropolitan area, the suburban "ring" with its concentration of income is largely outside of District boundaries and taxing authority.

Obligations as the Nation's Capital. The District is the location of the nation's capital. Indeed, the District exists because of the federal government and clearly benefits from its presence. The federal government provides the District with a large and stable employment base and also attracts business people and tourists. However, the District incurs significant costs from the federal presence. Although the District provides services to the federal government—public safety and public works among others—the federal government does not pay taxes to the District.

Why is the Fiscal Imbalance of Concern?

A structural imbalance exists in the District because the District's income and property tax bases are reduced by federal presence, because the District must provide uncompensated services to the federal government, and because the District must provide federally-mandated but uncompensated services to its citizens. These unique circumstances leave the District in a precarious financial situation. Even if District revenues grow at the long-term average rate, revenues still will not be sufficient to meet the District's needs because of the structural imbalance.

In recent years, D.C. expenditures and revenues have been in balance, thanks in large part to a vibrant economy. However, because of constraints on the District's revenue sources and the District's growing expenditure needs, an increasingly large gap emerges between the District's revenues and expenditures.

Correcting this structural imbalance is difficult. Efficiency improvements can ease the structural imbalance problem, but do not solve it. Once program management inefficiencies are eliminated, cutting spending means eliminating necessary services. Maintaining spending while raising taxes also is problematic. Increased taxes may cause residents and businesses to leave the jurisdiction, further reducing the tax base. Rainy day funds are insufficient and are intended for short-term cash flow problems rather than recurring budget shortfalls. Because structural problems are long-term in nature, replacing the funds will only exacerbate the underlying problem in the year after the funds are used. As a jurisdiction's finances deteriorate, bond rating agencies will downgrade a jurisdiction's bond rating. The resulting higher borrowing costs make borrowing a less viable option. Nor can the District assume that a strong economic recovery will provide sufficient revenue to fully fund the city's needs in the future.

The McKinsey report concluded that even if the District captured savings from additional management efficiency improvements, deferred planned reductions in individual income tax rates, and did not encounter unforeseen events that required additional spending or that reduced the District's revenues, the District would still have difficulty avoiding budgetary deficits. The simple relationship between the District's expenditures and constrained tax base sets in place a structural imbalance that will continue to threaten District services in the short-term and the District's viability in the long-term.

Major Factors Affecting D.C. Revenues in FY 2002 and FY 2003

During the late 1990s, the District's economy grew as did the District's tax revenue. Then, in March 2001, came the start of a national recession, according to the National Bureau of Economic Research's Business Cycle Dating Committee. This event marked the end of the U.S. economy's ten-year expansion—the longest ever. The District's economic indicators showed that the national recession affected the District, although to a lesser degree than many other places around the country. In response to the recession, the stock market began to fall, causing a drastic reduction in stockholders' wealth and income received from capital gains. The reduction in capital gains income played a major role in the decline in individual income tax revenue in the District. As a result of the economic slowdown, the District's General Fund revenue collections began to slow in FY 2001. The impact of the recession carried over into FY 2002.

September 11 had a limited impact on FY 2001 revenues because they occurred so late in the fiscal year. In FY 2002, however, the economic consequences of September 11 contributed to significantly lower District revenue compared to FY 2001. In particular, the events of September 11 had a major impact on District revenues associated with business and tourism travel. Reagan National Airport's closing and slow reopening and the fear of additional terrorist attacks meant fewer visitors to the District. Hotel occupancy plummeted, and restaurants and retail establishments experienced a significant decline in customers. Decreased business and tourism travel had a major impact on revenue from sales taxes on restaurant meals and hotel rooms. Income tax revenue also dropped as hotel, restaurant, and retail workers were laid off or had their hours reduced.

Negative impacts on revenue were offset to some extent by the District's robust real estate market. Despite the recession and September 11, both the commercial and residential real estate markets remained healthy. Lower interest rates were one key reason. As a result, revenue from real property and deed taxes remained strong.

Addressing Potential Budget Deficits

September 11 and the cyclical factors described above created a challenging fiscal environment for the District. Although the District ended FY 2002 with a budget surplus in general funds of $27.4 million—the District's sixth balanced budget in a row—this outcome required the city's political leaders to address a number of fiscal difficulties during the year. In June 2002, the Office of the Chief Financial Officer identified a $75 million revenue shortfall for FY 2002. This gap was closed in part by the Council approving legislation to convert $47 million of "O"-type revenues (charges and fees dedicated to and collected and spent by the collecting agency) to unrestricted local funds. These revenues had been collected, but not spent, during FY 2002. An additional $10 million was available from net reimbursements to the District from the U.S. Marshals Service to cover the Department of Corrections' cost for housing federal prisoners. Finally, $18 million came from savings in local funds spending through hiring and spending freezes.

In September 2002 the Office of the Chief Financial Officer identified a larger revenue problem. At that time, the revised revenue estimates for FY 2003 indicated that conditions had changed, generating a potential FY 2003 budget deficit of $322.7 million. This revenue shortfall resulted from a $285.2 million drop in tax and non-tax revenues and a $37.5 million downward revision in anticipated Medicaid revenues. The Mayor and Council immediately responded to close the gap through a combination of spending reductions and tax increases.

The spending cuts amounted to $194.8 million and consisted of a $106.4 million reduction in new FY 2003 spending and a $88.4 million reduction in FY 2003 baseline spending. On the revenue side, $128.9 million of revenue raising measures were enacted. Tax rate changes produced $76.4 million of additional revenue. These changes included: increasing the sales tax rate on retail alcoholic beverages (+$1.4 million), increasing the cigarette tax rate (+$5.8 million), raising the tax on vacant and abandoned property (+$5.8 million), increasing the deed tax rate (+$24.0 million), deferring tax parity in the case of franchise taxes (+$17.5 million), increasing the public utilities tax rate (+$10.4 million), and raising the toll telecommunications tax rate (+$4.9 million). A variety of non-tax revenue measures amounting to $52.5 million were also part of the District's response to the cyclical fiscal imbalance.

The Fiscal Situation in Other Jurisdictions

The District is not the only jurisdiction facing budget pressures today. States throughout the country continue to face weak revenues. At the same time, expenditures—particularly health care costs—have increased. States are therefore experiencing large and growing budget gaps. In fact, the fiscal situation facing state governments has been described as the worst since World War II. On a daily basis, newspaper headlines throughout the country report revenue running below projections, and proposals for tax hikes or spending cutbacks to plug budget gaps.

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, tracks state tax revenue collections. For the July-September quarter of 2002, the Rockefeller Institute reported that state tax revenue grew by 2.5 percent from the same quarter in 2001. Although this is a seemingly positive development, the Rockefeller Institute noted that after adjustments are made for tax law changes and inflation, real state tax revenue declined for the fifth straight quarter.

The Rockefeller Institute also looked at changes in three major taxes—the personal income tax, the corporate income tax, and the sales tax. State personal income taxes fell by 1.6 percent in the July-September 2002 quarter, the fifth straight quarter of decline. State corporate income tax revenues, which have been increasingly volatile over time, grew by 4.8 percent—the first increase after two years of mostly double-digit declines. July-September 2002 state sales tax revenue increased by 3.8 percent. This followed five quarters of little or no growth in sales tax revenue.

The Rockefeller Institute's report for the July-September 2002 quarter also showed 13 states with tax revenues below the same quarter in 2001. In the other states for which revenue figures were available for the entire quarter, quarterly revenues were even with or above those in the prior year.

The *Fiscal Survey of States*, a report issued in November 2002 by the National Governors Association (NGA) and the National Association of State Budget Officers (NASBO), provides further evidence of the fiscal difficulties facing jurisdictions around the country. The report showed FY 2002 revenue collections had come in significantly below budget. Forty-one states were reported to have collected less revenue in FY 2002 than they had originally budgeted. Only six states reported higher revenue than had been budgeted. The revenue shortfall affected all sources of revenue—sales tax collections were 3.2 percent lower than budgeted, personal income tax collections were 12.8 percent lower, and corporate income taxes were 21.5 percent lower than targeted.

The NGA/NASBO report also noted that the fiscal crisis facing state governments can be seen in their deteriorating year-end balances. In FY 2000, state year-end balances amounted to 10.4 percent of expenditures. However, as economic growth slowed, the balances began to disappear. In FY 2001, year-end balances had fallen to 7.8 percent of expenditures. Preliminary FY 2002 data showed a further decline—year-end balances were down to 3.5 percent of expenditures. Based on FY 2003 appropriations, year-end balances for FY 2003 are expected to be approximately 2.9 percent of expenditures. In FY 2001, only two states had balances below one percent of expenditures, and five states had balances between one percent and three percent of expenditures, while the balance in 36 states exceeded five percent of expenditures. In FY 2002, however, the number of states with low year-end balances increased drastically—12 states had balances less than one percent of expenditures and, 12 had balances between one percent and three percent of expenditures.

The National Conference of State Legislatures' (NCSL) January 2003 survey of legislative fiscal directors concluded that "state budgets are under siege." The NCSL report *(State Budget Update: February 2003)* looked at state budgets for FY 2003 and FY 2004.

For FY 2003, the NCSL survey found that 36 states reported budget gaps midway through their fiscal year.[1] Combined, the reported FY 2003 budget gaps in these states amounts to $25.7 billion or 5.2 percent of FY 2003 appropriations. What is alarming to the NCSL is that the cumulative budget gap has grown nearly 50 percent since November 2002. Fifteen of the 36 states had gaps exceeding five percent of their appropriations and four of the 15 states had gaps that were more than 10 percent of appropriations. The NCSL survey reflected state officials' concerns about the revenue outlook, as 44 states expressed either concern or pessimism about revenues for the remainder of FY 2003. At the time of the NCSL survey, at least 30 states reported their general fund collections were below budgeted estimates. On the spending side of the budget, spending exceeded budgeted levels in 37 states; 32 of these states reported Medicaid and health care programs as over budget.

The legislative fiscal directors also reported their projections for their FY 2004 budgets to the NCSL. Their responses indicated that 36 states anticipated budget gaps for FY 2004 with five states estimating a gap between five and 10 percent of appropriations and 18 states expecting a gap of over 10 percent. Only three states did not report a FY 2004 gap, while 11 states did not yet have sufficient data to make an estimate of their FY 2004 budget situation.

The current fiscal difficulties are not confined to states. U.S. cities are also experiencing budget pressures. The most recent National League of Cities (NLC) survey of finance officers in U.S. cities shows the decline in city fiscal conditions. The majority of finance officers reported that

[1] For most states, the responses to the January 2003 NCSL survey reflected fiscal conditions midway through their fiscal year since FY 2003 began on July 1, 2002 in forty-six states. In New York the state fiscal year begins on April 1, in Texas it begins on September 1, while in Alabama and Michigan the fiscal year has an October 1 starting date.

their cities were worse off financially in FY 2002 compared to FY 2001. Slower than expected growth in sales taxes, income taxes, and tourist-related taxes contributed to the fiscal problems, along with increased demands for public safety expenditures. While the NLC report (*City Fiscal Conditions in 2002*) is based on responses to a survey conducted in the spring of 2002, it does provide a picture of how severely cities have been affected by the recession, the aftereffects of September 11, and rising public safety, health care, and infrastructure investment costs. The finance officials also indicated that they expected these revenue and expenditure trends to continue in FY 2003.

Table 4-1

Estimated Key Variables for the D.C. Economy, Fiscal Years 1998-2007

	FISCAL YEAR									
	1998 Actual	1999 Actual	2000 Actual.	2001 Actual	2002 Actual	2003 Est.	2004 Est.	2005 Est.	2006 Est.	2007 Est.
Gross State Product ($ billion)	51.73	54.40	58.45	62.03	64.50	66.84	69.96	73.22	76.65	80.23
	3.4%	5.2%	7.4%	6.1%	4.0%	3.6%	4.7%	4.7%	4.7%	4.7%
Real Gross State Product (billions of $96)	49.53	50.80	53.15	54.88	56.30	57.41	58.73	60.07	61.53	63.02
	0.9%	2.6%	4.6%	3.2%	2.6%	2.0%	2.3%	2.3%	2.4%	2.4%
Personal Income ($ billion)	19.94	20.42	21.70	22.89	23.43	24.27	25.35	26.47	27.64	28.93
	4.9%	2.4%	6.3%	5.5%	2.4%	3.6%	4.4%	4.4%	4.4%	4.7%
Real Personal Income (billions of $96)	19.41	19.60	20.33	20.97	21.19	21.50	21.91	22.32	22.77	23.26
	3.7%	1.0%	3.7%	3.1%	1.1%	1.5%	1.9%	1.9%	2.0%	2.2%
Per Capita Income ($)	35,260	35,869	37,926	39,895	41,037	42,287	43,762	45,418	47,094	48,937
	5.4%	1.7%	5.7%	5.2%	2.9%	3.0%	3.5%	3.8%	3.7%	3.9%
Real Per Capita Income ($96)	34,315	34,424	35,533	36,545	37,114	37,462	37,832	38,295	38,784	39,337
	4.2%	0.3%	3.2%	2.8%	1.6%	0.9%	1.0%	1.2%	1.3%	1.4%
Earnings of D.C. Residents ($ billion)	13.15	13.57	14.43	15.34	15.72	16.28	17.02	17.80	18.62	19.50
	3.1%	3.1%	6.4%	6.3%	2.5%	3.6%	4.6%	4.6%	4.6%	4.8%
Population ('000)	565.6	569.3	572.1	573.8	570.9	574.0	579.2	582.8	587.0	591.2
	-0.5%	0.7%	0.5%	0.3%	-0.5%	0.5%	0.9%	0.6%	0.7%	0.7%
Households ('000)	245.1	247.3	248.3	245.8	247.6	248.8	250.5	252.6	254.3	256.1
	-0.1%	0.9%	0.4%	-1.0%	0.7%	0.5%	0.7%	0.8%	0.7%	0.7%
Civilian Labor Force ('000)	269.2	281.8	279.4	278.8	274.3	269.1	272.8	276.3	279.6	282.6
	2.1%	4.7%	-0.9%	-0.2%	-1.6%	-1.9%	1.4%	1.3%	1.2%	1.1%
At-Place Employment ('000)	614.6	620.5	645.3	653.1	650.4	652.3	657.4	664.0	672.0	680.0
	-0.7%	1.0%	4.0%	1.2%	-0.4%	0.3%	0.8%	1.0%	1.2%	1.2%
Resident Employment ('000)	245.0	262.5	263.6	261.0	256.6	252.1	256.2	261.1	264.3	267.1
	0.8%	7.1%	0.4%	-1.0%	-1.7%	-1.8%	1.6%	1.9%	1.2%	1.1%
Unemployment Rate	9.0	6.9	5.6	6.4	6.5	6.3	6.1	5.5	5.5	5.5
Housing Starts	185	644	1,194	2,260	2,984	4,239	3,987	3,912	3,744	3,744
Housing Stock ('000)	273.2	273.6	274.8	273.6	273.0	273.8	275.0	276.7	278.1	279.6
	0.1%	0.1%	0.4%	-0.4%	-0.2%	0.3%	0.4%	0.6%	0.5%	0.5%
Change in S & P 500 Index of Common Stock	27.5%	21.3%	13.1%	-12.2%	-16.0%	-13.2%	10.8%	13.9%	10.3%	7.6%
Interest Rate on 10-year Treasury notes (%)	5.6	5.3	6.2	5.2	4.8	4.5	6.3	6.8	6.8	6.5
Washington Area Consumer Prices (% Change from prior year)	1.0	1.9	3.1	2.4	1.5	2.2	2.2	2.4	2.5	2.4

Note: Estimated by the D.C. Office of Research and Analysis based on forecasts of the D.C. and national economies prepared by Global Insight (December 2002) and Economy.com (November 2002); on forecasts of the national economy prepared by the Congressional Budget Office (January 2003) and Blue Chip Economic Indicators (January 2003); on BLS labor market information from December 2002; on the 2000 Census and Census Bureau estimates of the 2002 D.C. population (December 2002); on Bureau of Economic Analysis estimates of D.C. Personal Income (October 2002); and on D.C. Office of Planning information on housing construction activity (December 2002).

Economic Assumptions for the FY 2004-2007 Revenue Estimates and Financial Plan

The national recession and geo-political concerns added uncertainties to the process of developing economic assumptions for the FY 2004-2007 revenue estimates and financial plan. As always, many of the factors affecting the District's economic performance are beyond its control.

The preliminary national economic indicators for the first quarter of FY 2003 suggest that the national economy is recovering, albeit in a somewhat erratic fashion. According to the preliminary estimate of the U.S. Bureau of Economic Analysis, U.S. real Gross Domestic Product grew by 1.4 percent in the first quarter of FY 2003, and personal income rose 0.4 percent in December 2002. The pace of economic recovery—or even if it will be sustained—remains uncertain.

Table 4-1 provides the economic assumptions underlying the revenue estimates.

Short Term (Fiscal Years 2003-2004)

In keeping with national forecasts, the FY 2004 Proposed Budget and Financial Plan assumes that output, income, and employment will increase in FY 2004, with growth greater than in FY 2003. Several factors make the District well poised to respond to improvement in the national economic climate. First, the District's service-oriented economy did not decline as far as the U.S. economy as a whole. Second, increases in federal spending are expected to be of benefit to the District's economy. Third, the hardest hit sector, the hospitality industry, is beginning to show signs that the worst is over.

Gross State Product. GSP, the value added in production by the labor and property located in a state, is a measure of the gross output of all industries in a state. Growth in the District's real gross state product is expected to be 2.0 percent in FY 2003, with an increase to 2.3 percent growth in FY 2004. The growth rate of nominal GSP also picks up in FY 2004, and continues in subsequent years at rates close to those of the national economy. The FY 2004 recovery is led by increases in the District's service and government sectors.

Personal Income. Personal income is a measure of before-tax income received by all persons in a state. It is the total of net earnings by place of residence, rental income, personal dividend income, personal interest income, and transfer payments. The growth in D.C. personal income was adversely affected by the economic slowdown in FY 2002 but is expected to show signs of improvement in FY 2003. The 4.4 percent growth forecast for FY 2004 is somewhat less than the growth rate experienced in FY 2001.

Per Capita Income. Following the pattern of personal income, growth in both nominal and real per capita income, which slowed in FY 2002, rebound in FY 2004.

Population and Households. D.C.'s 2000 Census count of 572,059 showed that the District of Columbia lost less population during the 1990s than the U.S. Census Bureau had been expecting. The District's population now appears to have stabilized despite a small downturn in 2002. With the market for new and rehabilitated housing construction expected to remain strong, the District's population and number of households are expected to increase in FY 2003 and each of the years in the financial plan. This is a major reversal of declining trends over the past several decades.

Civilian Labor Force. The civilian labor force refers to the total number of private industry and state and local government workers who are either employed or unemployed. Military and agricultural workers are not included in this labor force measure. The District's civilian labor force has declined in each of the last three fiscal years. In 2004, however, a growth of 3,700 is anticipated, with steady increases in the following years.

Wage and Salary Employment Located in D.C. Job growth in the District in FY 2003 is expected to show a net increase of 1,900 (0.3 percent), then increase to 5,100 (0.8 percent) in FY 2004. Most of the increase is in the District's service sector.

Resident Employment. Growth of employed D.C. residents is expected to be negative in FY 2003 for the third year in a row. In FY 2004, however, growth of 4,100 (1.6 percent) employed residents is anticipated.

Unemployment Rate. The unemployment rate, which was 6.5 percent in FY 2002, is expected to fall slowly in FY 2003 (to 6.3 percent) and FY 2004 (to 6.1 percent) as employment levels increase in the District's economy.

Housing. Starting in FY 2000, construction of new housing units has increased significantly. At present, there is no indication that the slowdown in the economy is resulting in delays in constructing additional units, and about 4,200 new and rehabilitated units are anticipated in FY 2003 and 4,000 in FY 2004. In FY 2003 the District's total housing stock (net of units removed from inventory) is expected to begin a steady rise that will support greater population.

Stock Market. The FY 2004 budget assumes that the S&P 500 Index of Common Stocks will decrease 13.2 percent in FY 2003 over the average of FY 2002, but will increase 10.8 percent in FY 2004. Increases are also forecast throughout the rest of the financial plan period.

Inflation. Inflation, as measured by the Consumer Price Index, declined to 1.5 percent in FY 2002. Inflation of 2.2 percent is expected in FY 2003 and FY 2004.

Long Term (Fiscal Years 2005-2007)

In looking further ahead to FY 2005 through FY 2007, the key national economic issues are how rapidly the national economy recovers from the recession and the resolution of geo-political factors.

Nationally, the Congressional Budget Office (CBO) projects real GDP to grow by 3.5 percent in FY 2005 and by 3.3 percent and 3.2 percent respectively in FY 2006 and FY 2007. The Blue Chip consensus forecast anticipates average annual growth in real GDP of 2.1 percent per year between FY 2005 and FY 2007.

The regional economy is expected to show strength over the long term as it benefits from increased federal government expenditures for both national and homeland defense. While the District does not benefit as much as Northern Virginia from this spending, there will be economic spillovers to District businesses. The continuing revitalization of the downtown area will draw metropolitan area residents to downtown restaurants, shops, and theaters. The opening of the new convention center in FY 2003 should boost the city's tourism industry. The housing market is expected to remain strong as improving conditions in the city continue to attract new residents, although the commercial real estate market may experience slower gains. Jobs in D.C. and resident employment are assumed to increase by about 7,500 and 3,600 per year during the FY 2005 to FY 2007 period, respectively. Inflation-adjusted gross state product and personal income grow at average annual rates of 2.4 percent and 2.0 percent, respectively, over the same period.

Uncertainties Could Affect the Economic Assumptions

In developing economic projections for the District, there are always questions about the future and what could transpire. The uncertainties associated with the FY 2003 through FY 2007 period are particularly significant. The factors adding an element of risk to the economic and revenue forecasts include the uncertain nature of the national economic recovery, the continuing dismal performance of the stock market, the possibility of a war with Iraq, and the security issues that have come to the forefront after September 11.

Uncertainty of the Economic Recovery. The U.S. economy appears to be on an upturn. Although the National Bureau of Economic Research (NBER) has not declared an end to the recession, most observers believe that the economy has turned the corner—possibly as long ago as in November or December 2001. Despite some indications that the U.S. economic recovery has begun, there remains concern about the slow speed of the recovery. GDP for the fourth quarter of calendar year 2002 was weaker than many analysts expected. Job growth continues to be sluggish on both the national level and in the D.C. area.

This slow turnaround is not surprising for two reasons. First, businesses still have concerns about economic growth and the possible impact of a war in Iraq. As a result, businesses have held back on hiring and investment. Second, productivity remains high. High productivity enables businesses to make the most out of current employment levels and thus acts as another impediment to new hiring.

As the District's budget is in development, there is a strong likelihood of a war with Iraq. What will a war mean to the U.S. economy and the District? The magnitude of the impact depends on how long the war lasts, the extent to which oil prices are affected, and the amount of spending needed to help rebuild Iraq after the war.

The difficult fiscal situation faced by state and local governments is forcing most jurisdictions either to make spending cuts or to increase taxes to bring their budgets into balance. However, these budget-balancing steps can act as a drag on the national economy and hinder recovery from the recession.

Homeland Security. The federal government has created a new cabinet department for homeland security. At this point, this has benefited the District since the District was selected as the department's temporary headquarters, but the long-term impact of this department on the District is uncertain. If the department decides to consolidate its constituent agencies in a single location, the District may not be the preferred setting. Factors affecting the location decision include availability of space, the cost of space, and the level of security associated with a location. Virginia and Maryland have argued that the headquarters should be in their states.

Because of September 11, there is still concern that the District is a target for terrorism. What impact will terrorism concerns have on the business activity in the District? How will the views of insurers about the District affect the commercial real estate market? And if there is a war with Iraq, will tourism to the District hold up? These are among the unanswered questions that are key to determining the future direction of the D.C. economy.

Federal Tax and Budget Policies. In January 2003, the President proposed an economic growth package that is now under consideration by Congress. While the components of the final economic growth package that emerges from Congress will not be known for a few months, the proposal could affect the District's revenues. One question that has been raised is whether the plan will provide a stimulus in the short term. Some economists have questioned how much of a stimulative effect the plan will have on consumer spending given that many of the provisions will benefit upper-income individuals. There is also a concern that the President's plan, combined with the increased spending for a war with Iraq and for assistance after the war, will result in significant budget deficits that will increase the possibility of higher interest rates. In addition to the President's plan, House Democrats and Senator Baucus also have economic stimulus proposals on the table.

A National Conference of State Legislatures (NCSL) analysis of the implications of these various tax proposals shows that a number of the provisions could have significant costs for the states and the District. For example, the President's proposal to eliminate the double taxation of corporate dividends would lead to a revenue loss for jurisdictions that have a personal income tax on dividends.

Revenues

During FY 2002, local source General Fund revenue decreased by $128.8 million (3.6 percent) compared to FY 2001. As shown in Table 4-2, local-source General Fund revenue consists of local taxes, non-tax revenue (e.g., licenses and permits, fines and forfeits, and user fees), and lottery revenue. It does not include grant revenue or revenue earmarked for specific uses. Such revenues are accounted for in special funds.

The total amount of revenues in the General Fund as measured in Table 4-2 differs from total revenues as measured in the Comprehensive Annual Financial Report (CAFR) for several reasons. Recent accounting changes mandated by the Government Accounting Standards Board (GASB) are one key factor. As a result of GASB 34, "Other Sources Revenue"-or O-type revenue-is now considered part of the General Fund for the purposes of the CAFR. However, O-type revenue is still not included as part of local source revenue.

The total revenues number in Table 4-2 also reflects two other measurement differences between the local source revenues and the CAFR. One, unlike the CAFR, local source revenues does not include "Fund Balance Released from Restrictions" because it is not considered a "true revenue" for the purpose of revenue estimation. Two, Table 4-2 includes Federal Project Funds, which the CAFR no longer includes as part of the General Fund. Therefore, to reach the General Fund revenue total shown in the CAFR from the General Fund revenue total shown in Table 4-2, it is necessary to add Other Sources Revenue, add the Fund Balance Released from Restrictions, and subtract Federal Project Funds.

FY 2002 Revenues

Individual income taxes—the District's largest source of tax revenue—fell by 13.6 percent compared to their FY 2001 level. This downturn reflects the set of factors discussed previously that negatively affected the District's economy during FY 2002.

Corporate franchise taxes, which had shown strong growth during FY 2001—increasing by 22.4 percent over FY 2000 levels, largely as the result of a one-time payment—fell by 38.8 percent in FY 2002. Unincorporated business franchise tax revenue stayed steady, declining by only 0.3 percent in FY 2002. Overall, business income taxes declined by 30.1 percent—a significant turnaround from the prior two fiscal years when business income taxes increased by 15.6 percent and 20.0 percent in FY 2001 and FY 2000, respectively.

Property taxes grew by 13.6 percent over FY 2001. Real property taxes increased by 14.7 percent, which shows the continuing strength of the residential and commercial property markets. Revenues from both personal property and public space taxation grew in FY 2002 after declining in FY 2001. Personal property tax revenue increased by 1.7 percent and public space tax revenue increased by 20.4 percent in FY 2002 over their FY 2001 levels. The FY 2001 decline in personal property tax revenue occurred in part due to the phase-in of rate reductions under the Tax Parity Act of 1999.

Sales taxes also decreased during FY 2002. Overall, sales taxes fell by 1.2 percent. General sales taxes (net of the Convention Center transfer) fell by 0.8 percent during the year. Selective sales and use taxes on alcohol fell by 0.5 percent, while revenue from the taxation of cigarettes grew by 5.3 percent. Motor vehicle excise taxes fell by 11.0 percent during FY 2002.

Gross receipts taxes in total fell by 0.8 percent in FY 2002 compared to FY 2001. The toll telecommunications and insurance premiums components of this revenue source grew by 8.0 percent and 6.4 percent, respectively, in FY 2002 relative to their FY 2001 levels. A 5.5 percent drop in revenue from public utility gross receipts taxes, however, offset this growth.

The District also received revenue from the taxation of estates, deed recordation, deed transfers, and economic interests. Revenue from these sources combined increased by 48.5 percent in FY 2002, led by a 209.6 percent increase in economic interests revenue and a 146.5 percent increase in estate tax revenue. Deed recordation and deed transfers increased by 18.5 percent and 0.2 percent, respectively.

Non-tax revenue was another revenue source that brought in less revenue in FY 2002 compared to FY 2001. Although fines and forfeits grew by 51.7 percent and licenses and permits grew by 21.3 percent, the decline in non-tax revenue from charges for services and miscellaneous revenue more than offset these revenue gains.

Revenues in FY 2003-FY 2007

Projected revenue growth beyond FY 2002 is very constrained. Current estimates for FY 2003 show an overall increase in tax revenue of 1.2 percent, while non-tax revenues and other revenue (lottery revenue) are projected to increase by 4.6 percent and 8.9 percent, respectively. General Fund revenues are estimated to increase by only 1.6 percent during FY 2003. This revenue picture reflects expectations about the timing and strength of the District's economic recovery and also the impact of the special factors noted earlier.

Some pick-up in revenue growth is projected for FY 2004. Current baseline estimates for FY 2004 show an overall increase in tax revenue of 4.8 percent. Non-tax revenues and other revenue are also projected to increase—by 1.4 percent and 2.3 percent, respectively. General Fund revenues are estimated to increase by 4.5 percent during FY 2004.

For the remainder of the projection period—fiscal years 2005 through 2007—tax revenue is estimated to grow by 4.5 percent per year on average. Non-tax revenue is projected to grow by 3.2 percent per year on average. General Fund revenue is projected to grow by 4.3 percent per year on average over the FY 2005 to FY 2007 period.

Revenue Initiatives

The FY 2004 budget includes the following revenue initiatives:

- Delay individual income tax reductions under Tax Parity;
- Institution of a 0.6 percent surtax on taxable income above $100,000;
- Addition of selected services to the general sales tax base;
- Increasing the parking tax to 18 percent;
- Intrafund transfers of revenues to the General Fund from the Housing Production Trust Fund, Emergency-911, and Health Science Regulation;
- New parking meters; and
- Marshal's per diem to General Fund.

These initiatives and their revenue impact are discussed later in this chapter.

Specific Revenue Sources

The following sections discuss specific taxes and other revenue sources and provide estimates for these revenues through FY 2007. Figure 4-1 shows the distribution of estimated General Fund revenue for FY 2004 by source of revenue.

Property Taxes

Real Property Tax

Like other jurisdictions throughout the United States, the District taxes real property based on 100 percent of assessed value and bills taxpayers twice annually. But the District's real property tax system differs from that of other jurisdictions in two important ways. First, the District's system divides properties into three separate tax classes depending on the use of the real property. Each class is taxed at a different rate. (See Table 4-3.)

Second, the District has an extraordinarily large proportion of real property that is exempt from paying the District's real property tax—roughly 40 percent by total assessed value. Tax-exempt properties primarily include those owned by the federal government as well as properties

Figure 4-1:
Estimated Local Fund Revenue in FY 2004 (Excluding Revenue Initiatives)

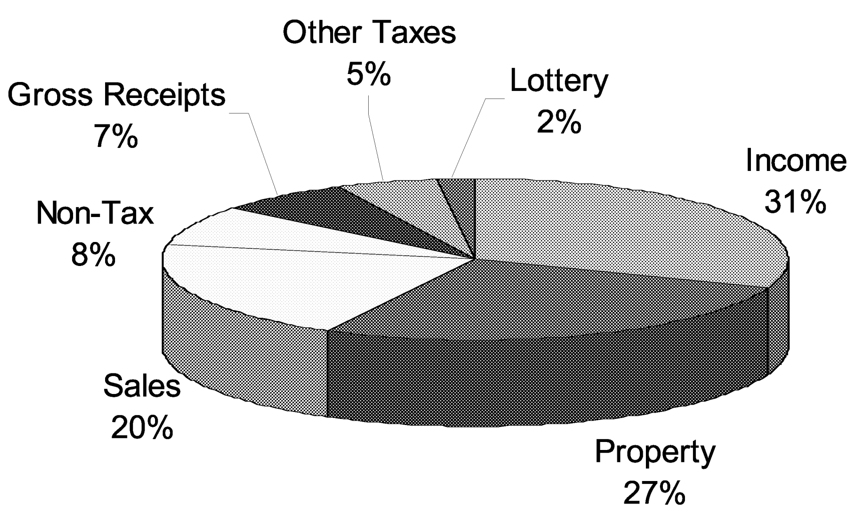

Table 4-2

General Fund, Local Revenues by Source, FY 2002 Actual, FYs 2003-2007 Estimates and Projections

($ thousands)

Revenue Source	FY 2002 Actual	FY 2003 Revised	FY 2004 Original	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected
Real Property	726,014	818,936	920,723	1,005,436	1,074,710	1,145,168
Personal Property	65,208	65,271	65,362	65,637	65,966	66,775
Public Space	12,167	12,865	13,383	13,708	13,982	14,262
Total Property	**803,389**	**897,072**	**999,468**	**1,084,781**	**1,154,658**	**1,226,205**
General Sales (gross)	665,727	704,372	736,832	771,613	808,959	846,736
Convention Center Transfer	53,373	56,363	58,921	61,710	64,696	67,718
General Sales (net)	612,354	648,009	677,911	709,903	744,263	779,018
Alcohol	4,721	4,502	4,432	4,366	4,304	4,244
Cigarette	17,189	22,863	24,270	23,668	23,157	22,638
Motor Vehicle	34,573	33,273	32,164	31,306	30,501	29,461
Total Sales	**668,837**	**708,647**	**738,777**	**769,243**	**802,225**	**835,361**
Individual Income	949,175	924,206	923,537	932,244	926,314	989,079
Corporate Franchise	142,647	137,065	148,448	156,852	163,763	168,730
U. B. Franchise	68,602	63,892	70,974	77,389	83,461	89,197
Total Income	**1,160,424**	**1,125,163**	**1,142,959**	**1,166,485**	**1,173,539**	**1,247,007**
Public Utility	140,931	151,754	156,164	160,224	163,750	167,352
Toll Telecommunication	55,353	64,958	72,094	78,243	84,916	92,159
Insurance Premiums	35,502	34,000	34,400	34,900	34,900	34,900
Total Gross Receipts	**231,786**	**250,712**	**262,659**	**273,368**	**283,565**	**294,410**
Estate	125,889	39,808	42,459	45,287	48,299	51,510
Deed Recordation	89,951	93,495	87,448	88,065	89,199	90,958
Deed Transfer	62,228	70,905	65,547	66,060	66,715	67,427
Economic Interests	5,078	707	596	595	595	596
Total Other Taxes	**283,146**	**204,915**	**196,050**	**200,006**	**204,808**	**210,490**
TOTAL TAXES	**3,147,582**	**3,186,509**	**3,339,913**	**3,493,883**	**3,618,795**	**3,813,473**
Licenses & Permits	50,195	61,872	63,462	66,444	64,232	67,445
Fines & Forfeits	86,539	104,162	100,439	100,439	100,439	100,439
Charges for Services	55,472	49,281	50,121	51,951	50,530	52,427
Miscellaneous Revenue	80,553	69,975	75,179	84,789	94,694	97,769
TOTAL NON-TAX	**272,759**	**285,290**	**289,201**	**303,623**	**309,895**	**318,080**
Lottery/Interfund Transfer	63,000	68,600	70,200	71,100	71,100	71,100
GENERAL FUND	**3,483,341**	**3,540,399**	**3,699,314**	**3,868,606**	**3,999,790**	**4,202,653**

Table 4-2 (continued)

General Fund, Local Revenues by Source, FY 2002 Actual, FYs 2003-2007 Estimates and Projections

($ thousands)

Revenue Source	FY 2002 Actual	FY 2003 Revised	FY 2004 Original	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected
Revenue Initiatives:						
TAXES:						
6% Surtax (0.6% tax) on net taxable income above $100,000	-	-	22,200	23,300	-	-
Add selected services to General Sales Tax Base at 5.75% rate	-	-	4,000	4,000	4,000	4,000
Increase current 12% parking rate to 18%	-	-	21,700	22,600	23,600	24,600
Suspend Tax Parity	-	-	24,000	77,129	141,000	149,200
Restart Tax Parity 3 years delayed	-	-	-	-	-	(24,000)
NON-TAX REVENUE:						
Parking Meters (1,500 new meters)	-	-	1,300	1,731	1,731	1,731
Marshal's Per Diem to General Fund	-	3,000-	3,000	3,000	3,000	3,000
INTRA-FUND TRANSFER:						
Housing Production Trust Fund Transfer to General Fund	-	-	9,000	-	-	-
E-911	-	-	2,000	-	-	-
Health Science Regulation	-	-	4,000	-	-	-
OTHER (Washington Center on Aging)	-	12,000	-	-	-	-
Total Revenue Initiatives	**-**	**15,000-**	**91,200**	**131,760**	**173,331**	**158,531**
General Fund with Revenue Initiatives	**3,483,341**	**3,555,399**	**3,790,514**	**4,000,366**	**4,173,121**	**4,361,184**
Federal Project Funds	43,295	33,000	0	0	0	0
Total General Fund w/Fed. Proj. and Revenue Initiatives	**3,526,636**	**3,588,399**	**3,790,514**	**4,000,366**	**4,173,121**	**4,361,184**

owned by foreign governments, non-profit organizations, educational institutions and others. This large amount of tax-exempt property is the primary reason why the District's real property tax rates are relatively high.

Since 1999, a number of important legislative and administrative changes have affected the District's real property tax.

Table 4-3

Real Property Tax Classes and Rates

(Effective for FY 2003)

Real Property Tax Class	Tax Rate
Class 1 (Residential)	$0.96 per $100 of assessed value
Class 2 (Commercial/Other)	$1.85 per $100 of assessed value
Class 3 (Vacant/Abandoned)	$5.00 per $100 of assessed value

Real Property Tax Assessments

Triennial Assessment

In fiscal years 1999 through 2001, the District operated solely under a triennial assessment system. Properties in the District were divided into three assessment groups called triennial groups (or tri-groups), each tri-group representing approximately a third of the total value of taxable real property in the District. Under the triennial assessment system, annual decreases in assessed value were immediately realized while annual increases in assessed value were phased in over a three-year period. This system reduced the volatility of year-to-year growth rates by significantly restraining year-to-year assessment increases.

Table 4-4

Real Property Tax Classifications and Rates, Fiscal Years 1999-2003

(per $100 of assessed value)

Currnt Real Property Classes	Class prior to FY 2002	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Class One: Effective 10/1/01**	Class 1	$0.96	$0.96	$0.96	$0.96	$0.96
	Class 2	$1.54	$1.34	$1.15	$0.96	$0.96
Class Two: Effective 10/1/01**	Class 3	$1.85	$1.85	$1.85	$1.85	$1.85
	Class 4	$2.15	$2.05	$1.95	$1.85	$1.85
Class Three: Effective 1/1/03***	Class 5*	$5.00	-		-	$5.00

*Eliminated in FY 2000 in accordance with provisions of the Tax Parity Act of 1999. Properties formerly in this class were merged into Class 4.

**Effective FY 2002 in accordance with provisions of the Tax Parity Act of 1999, Class 1 comprised of owner-occupied and renter-occupied residential. Class 2 comprised of commercial, transient residential, and other property.

***Effective January 2003 in accordance with provisions of the Real Property Tax Revision Amendment Act of 2002, Class 3 is established and subjects all taxable District property deemed as vacant and or abandoned to $5.00 per $100 of assessed value.

Annual Assessment

In FY 2002, the District began its transition back to an annual assessment system. During this transition, one triennial group is shifting into annual assessment each year through FY 2004, beginning with tri-group 1 in FY 2002. Tri-group 2 shifted to annual assessment in FY 2003, to be followed by tri-group 3 in FY 2004. By FY 2004, all real property in the District will, once again, be reassessed on an annual basis. The return to annual assessment will produce annual assessed values and growth rates that are more representative of their market values.

Real Property Tax Base

The District's real property tax base is the cumulative value of the city's real property assessments. In FY 2002, the District's total taxable real property had an assessed value of $53 billion, a 15 percent increase over the prior year. The FY 2003 total taxable real property had an assessed value of $63 billion, indicating that the District's real property tax base continues to grow after years of decline. It should be noted, however, that when these healthy rates of natural annual increases are combined with the phasing out of the triennial assessment system, the result is exaggerated increases in assessments for properties returning to annual assessments.

In fact, the transition back to annual assessments has resulted in some properties seeing a greater than 40 percent increase in assessed value. The Mayor and the Council responded immediately to this unintended consequence by enacting legislation instituting a 25 percent real property tax cap. District homeowners will pay no property tax on the assessment increase above the 25 percent level. The tax cap applies only to principal residences and does not limit the assessed value determined by the Office of Tax and Revenue.

Real Property Tax Rates

The Tax Parity Act of 1999 has greatly simplified the District's real property tax by reducing the number of real property tax classifications from five in FY 1999 to two in FY 2002. In FY 2002, real property tax Class 1 was comprised of owner-occupied and renter-occupied real property. Properties with a Class 1 designation were taxed at a rate of $0.96 per $100 in assessed value. Class 2 was comprised of commercial, transient residential and other property types. Properties with the Class 2 designation were taxed at a rate of $1.85 per $100 in assessed

Table 4-5
Property Tax Revenue, Fiscal Years 2002-2007
($ thousands)

	FY 2002 (Actual)	FY 2003 (revised)	FY 2004 (original)	FY 2005 (projected)	FY 2006 (projected)	FY 2007 (projected)
Real Property	726,014	818,936	920,723	1,005,436	1,074,710	1,145,168
Personal Property	65,208	65,271	65,362	65,637	65,966	66,775
Public Space	12,167	12,865	13,383	13,708	13,982	14,262
Total	**803,389**	**897,072**	**999,468**	**1,084,781**	**1,154,658**	**1,226,205**

value.

In an effort to encourage the development of over 3,000 abandoned and blighted properties around the city, the Real Property Tax Revision Amendment Act of 2002 established a new Class 3 for vacant and abandoned property. This new Class 3 is essentially the former Class 5 of FY 1999 and years prior. Unlike the former Class 5, however, the new Class 3 requires the registration of vacant properties and establishes maintenance standards. It also requires nonresident owners of vacant and abandoned properties to appoint a District resident or incorporated organization to serve as custodian. These measures are intended to prevent the proliferation of such properties. Additionally, the legislation provides a host of exemptions – 15 for residential property and 16 for commercial property – for buildings that are, for example, under construction, for sale, or have been damaged by flood or fire.

Table 4-4 highlights changes in real property tax rates by tax class from fiscal years 1999 through 2003.

Real Property Revenue

In FY 2002, collections under the real property tax constituted 21 percent of General Fund revenue, making the real property tax the second largest source of General Fund revenue after the individual income tax. In FY 2004, real property tax revenue collections are expected to comprise 25 percent of General Fund revenue. Real property tax revenue increased by 15 percent in FY 2002 over the prior year, and FY 2004 revenue is expected to increase approximately 12 percent over FY 2003. These double-digit growth rates are the direct result of a robust District real property market and the phasing out of the triennial assessment system.

Once all real property in the District has returned to annual assessment in FY 2005, real property tax collections are expected to grow at a more modest growth rate between 5 and 8 percent. This growth rate reflects the historical average growth in the value of the District's real property.

In addition to the recent important legislative and administrative changes to the District's real property tax, a significant number of developments in the marketplace have contributed to the District's real estate market success. First, the District's commercial office market, which accounts for over 60 percent of real property taxes, had one of the lowest vacancy rates in the nation in 2002. In fact, the Association of Foreign Investors in Real Estate (AFIRE) ranked the District as the top commercial real estate market for 2002 not only in the nation, but also the world (followed by London, Paris, New York and Milan). Furthermore, robust growth in the city's retail and housing property sectors has spurred new investment. This development is taking place not only in the central business district, as it did in past years, but in all parts of the city. The following examples highlight some of the new retail and housing development projects that underscore the strength of the District's real estate market:

Retail

- *Northeast:* Rhode Island Place, adjacent to the Rhode Island Avenue Metro Station, is a new shopping center with a 1,000-space parking lot. It is anchored by a Home Depot and a Giant Food store. A third big-box retailer is being recruited for the location.

- *Northwest:* Gallery Place is a mixed-use project atop the Gallery Place-Chinatown Metro Station comprising 650,000 square feet of urban entertainment, dining, retail, and living space. It will include 14-screen movie theater, a Jillian's restaurant and a Washington Sports Club. It is expected to be completed in 2004.
- *Southeast:* Camp Simms, located in Southeast Washington, is a 25-acre development with 80 new housing units, 30,000 square feet of office space and 106,000 square feet of retail space, including a 50,000 square-foot Giant Food store.
- *Southwest:* The Anacostia Waterfront Initiative has targeted 50 acres along the Southwest Waterfront for 250,000 square feet of retail/office space as well as 800 new housing units.

Housing

- *Northeast:* New East Capitol is one of three Hope VI housing developments in the District. It will include the construction of new residential units for home ownership and leasing as well as renovation of the East Capitol Dwellings, Capitol View Plaza and Capitol View town homes. This initiative entails 500 residential units. Its completion is targeted for 2007.
- *Northwest:* The Jefferson Penn Quarter will be the largest residential development in downtown D.C. It will include 405 luxury apartments and condos and is expected to be completed in 2003.
- *Southeast:* Douglas Knoll is an apartment complex that was renovated in 2002. The 182-unit complex offers affordable-income rental apartments.
- *Southwest:* The Navy Yard Hope IV Community will replace 707 units of public housings with 1,150 new residential units for mixed-income residents. The project will create a new in-town community with 75,000 square feet of retail and 600,000 square feet of office space. It is expected to be completed in 2006.

After years of economic contraction, the District is thus experiencing a development expansion that cuts across the residential, office and retail property market sectors. This expansion, in tandem with recent legislative and administrative changes, will lead to double-digit growth in the real property tax revenue until FY 2004. Beginning in FY 2005, the rate of real estate investment will subside and legislative changes will stabilize, which will lead to more modest growth, as previously stated.

Debt Service

Each year the District dedicates a percentage of its real property tax collections to pay off the principal and interest on its General Obligation Bonds. For FY 2003, the percentage of real property tax collections dedicated to the repayment of principal and interest on the District's General Obligation Bonds is 60 percent.

Personal Property Tax

The District's personal property tax is levied on the depreciated value of all tangible personal property used in a trade or business, including computers, vehicles, plant and equipment but excluding inventories held for sale. The strength of the District's economy in recent years has resulted in greater investment in personal property used for commercial purposes. However, growth in personal property tax collections was

Table 4-6

General Sales and Use Tax Revenue, Fiscal Years 2002-2007

($ thousands, Net of Convention Center Fund Transfer)

	FY 2002 (actual)	FY 2003 (revised)	FY 2004 (original)	FY 2005 (projected)	FY 2006 (projected)	FY 2007 (projected)
General Sales and Use	612,354	648,009	677,911	709,903	744,263	779,018

offset by the Tax Parity Act of 1999, which exempts the first $50,000 of a company's personal property tax base from taxation and increases the rate at which certain property can be depreciated. Although the Act reduced personal property tax revenues, it has made the District more competitive with surrounding jurisdictions by accelerating the depreciation of computer equipment.

As the District's economy slows in conjunction with the slowing national economy, the rate of net investment is expected to increase only modestly. Revenues from the personal property tax are expected to be approximately $65 million for FY 2003 to FY 2006. Once the national economy gains momentum and business investment regains strength, District personal property tax collections should exceed $66 million beginning in FY 2007.

Public Space Rental

There are three categories of public space rentals: sidewalks/surfaces, vaults and fuel tanks.

Public space rental of sidewalks/surfaces includes enclosed cafes, unenclosed cafes, and merchandise display areas (including used car lots). Vaults are underground areas that extend wider than an owner's property to spaces beneath the surface of public real property. For public space rental purposes, fuel oil tanks are areas used for tanks that hold heating fuel.

In FY 2001, total public space rental tax collection amounted to $10.1 million. In FY 2002, collections grew to $12.2 million. This sharp 20 percent increase was the result of an enforcement initiative conducted in FY 2002 by the Office of the Deputy Mayor for Planning and Economic Development together with the District Department of Transportation as part of the Street Café Compliance Program. Prior to this initiative, a significant number of District cafés were occupying more space than allowed, operating without permits, or operating without paying rent. This noncompliance was jeopardizing safe passable sidewalks near cafés in the city's most popular café districts.

The program started in the Adams Morgan area in 2002 and will soon spread to Cleveland Park, Georgetown and Capitol Hill. Collections from public space rentals are therefore expected to grow modestly over the next four years to about $14 million by FY 2007.

Sales and Excise Taxes

General Sales and Use Tax

Revenue from the District's sales and use tax is collected using a five-tier structure. Sales of tangible personal property and certain specified services are taxed at 5.75 percent. Sales of alcoholic beverages for consumption outside the premises are taxed at 9 percent (increased January 1, 2003 from 8 percent). Sales of food and drink for immediate consumption, the rental or leasing of motor vehicles and sales of prepaid phone cards are taxed at 10 percent (with one percent supporting the Convention Center Authority). Parking and storing of vehicles are taxed at 12 percent. Transient accommodations are taxed at 14.5 percent (with 4.45 percent supporting the

Table 4-7

Selective Sales and Excise Tax Revenue, Fiscal Years 2002-2007

($ thousands)

	FY 2002 (actual)	FY 2003 (revised)	FY 2004 (original)	FY 2005 (projected)	FY 2006 (projected)	FY 2007 (projected)
Alcoholic Beverages	4,721	4,502	4,432	4,366	4,304	4,244
Cigarette	17,189	22,863	24,270	23,668	23,157	22,638
Motor Vehicle Excise	34,573	33,273	32,164	31,306	30,501	29,461
Total Selective Sales and Excise (1)	**56,483**	**60,638**	**60,866**	**59,340**	**57,962**	**56,343**

(1) Excludes motor fuel tax because it is not a General Fund revenue source.

Table 4-8

Income Tax Revenues, Fiscal Years 2002-2007

($ thousands)

	FY 2002 (actual)	FY 2003 (revised)	FY 2004 (original)	FY 2005 (projected)	FY 2006 (projected)	FY 2007 (projected)
Individual Income	949,175	924,206	923,537	932,244	926,314	989,079
Corporation Franchise	142,647	137,065	148,448	156,852	163,763	168,730
U.B. Franchise	68,602	63,892	70,974	77,389	83,461	89,197
Total Income Taxes	**1,160,424**	**1,125,163**	**1,142,959**	**1,166,485**	**1,173,539**	**1,247,007**

Convention Center Authority). The multiplicity of rates, with special exemptions provided in each category, complicates the administration of the tax for the Office of Tax and Revenue and adds to compliance costs for businesses such as hotels and food stores, where transactions may involve several tax categories.

Revenue collected under the sales and use tax in FY 2002 was $612.4 million, net of the convention center transfer. For FY 2002, sales and use tax collections were the third largest source of District General Fund revenue, comprising 17.4 percent of total local-source revenue. The sales and use tax applies to businesses on their purchases of supplies and equipment as well as to a wide range of ordinary consumer purchases.

General retail sales at the 5.75 percent rate comprise two-thirds of the tax base and account for about half of the revenue. Two other categories—hotels (14.5 percent rate) and restaurants (10 percent rate)—make up the majority of the remaining revenue from the general sales tax. In FY 2002, out of total collections of about $665.7 million, $612.4 million was deposited into the General Fund and $53.4 million into the Convention Center Fund.

Growth in revenue from the general sales tax reflects the increased business activity in the District in the last several years. The average growth rate for FY 1998 through FY 2000 was above 5 percent. In the latter part of FY 2001, growth slowed considerably, to about 3 percent, reflecting the general economic slowdown in the District. The District's hospitality industry suffered considerably because of the events of September 11, 2001. Collections from sales and use taxes fell by $20 million or 12 percent in the first quarter of FY 2002 compared to the same period in FY 2001. In the second quarter of FY 2002, the decline compared to the previous year was $12 million or 7 percent. The hospitality industry, as measured by the convention center transfer, was hit even harder than total sales and use taxes. The convention center transfer dropped by approximately $3 million or 20 percent in FY 2002 in comparison to FY 2001. By the third quarter, the convention center transfer was still down by 8 percent ($1.5 million) compared to FY 2001.

However, revenue from sales and use tax collections started to rebound in January 2002 and continued to recover during the remainder of FY 2002. Barring another event like September 11, general sales are expected to grow at approximately 4.5 percent per year, in line with the growth of personal income. The opening of the new convention center, scheduled for FY 2003, is expected to contribute to the strong growth in revenue from sales tax from the hospitality sector.

Selective Sales and Use Taxes

In addition to the multi-rate general sales and use tax, the District imposes excise taxes on alcoholic beverages, cigarettes, motor vehicles, and motor fuel. The motor fuel tax is deposited directly to a special account (the Highway Trust Fund) to match federal funds for the construction, repair and management of eligible District roadways. As a result, motor fuel tax revenue is not considered part of the General Fund for budgetary purposes. Each of the excise taxes is subject to separate forecasting.

Alcoholic Beverage Tax

The alcoholic beverage tax is levied on wholesale sales of beer, wine, and liquor in the District. The tax rates vary by type of product. Alcohol consumption has been declining in the United States since 1990, a trend reflected in the District's tax collections for alcoholic beverages. Alcohol tax collections are expected to decrease throughout the FY 2003 through FY 2007 projection period. According to statistics from the National Institute on Alcohol Abuse and Alcoholism, beer and liquor comprise the major share of alcohol consumed in the District. Between 1995 and 1999, annual per capita beer consumption in the District declined 5.4 percent, and annual per capita liquor consumption declined 7.5 percent. Annual per capita wine consumption, by contrast, increased 6.3 percent over the same time period. The growing popularity of wine consumption in the District is expected to somewhat offset the decreased demand for beer and liquor in FY 2003 and 2004. Although the number of tourists and business travelers in the city continues to rise to pre-September 11th levels, alcohol consumption is expected to be lower in FY 2003 than in previous years.

Cigarette Tax

The cigarette tax is levied on the sale or possession of all cigarettes in the District with the exception of sales to the military and Congress. Cigarette consumption has been declining in recent years due to factors such as higher wholesale prices (related to the settlement between tobacco companies and the states), higher state taxes, and greater awareness of health risks. Effective January 2003, the cigarette tax rate will be $1.00 per pack, up from the previous rate of $0.65 per pack. This rate increase is estimated to increase revenues in FY 2003 and FY 2004 by generating an additional $5.8 million and $7.5 million in each respective fiscal year. Collections are then projected to decrease in subsequent years, as they have in the past, generating an additional $7.2 million in FY 2005, $7.0 million in FY 2006, and $6.8 million in FY 2007.

Motor Vehicle Excise Tax

The motor vehicle excise tax is imposed on the issuance of every original and subsequent certificate of title on motor vehicles and trailers. The tax is 6 percent of fair market value for vehicles 3,499 pounds or less and 7 percent of fair market value for vehicles 3,500 pounds and over. Collections from motor vehicle excise taxes totaled $34.6 million in FY 2002, an 11% decrease in collections from FY 2001. This tax is largely dependent on car purchases by District residents. Soaring car sales in previous fiscal years gave way to the fall-out from a slow economy following September 11, 2001. Automakers attempted to curtail this decline by continuing such incentives as zero percent financing and cash rebates. As the year went on, these incentives became costly to automakers and less appealing to consumers. Nevertheless, though auto sales did not recover to pre-September 11th levels, the slide in auto sales did begin to subside. By the end of FY 2002, sales had recovered to 3.2 percent nationally.

Uncertainties regarding the pending war in Iraq and its effect on oil prices are expected to have a slightly negative impact on vehicle sales by reducing the demand for pickups, sport utility vehicles and other heavier vehicles. Also, car sales in the coming years are not expected to be as robust nationally, nor locally, as in the previous years. Hence, excise tax collections are estimated

Table 4-9

Individual Income Tax Rates, Tax Years 2004-2007

Net Taxable Income	2004	2005	2006	2007
$0 - $10,000	5.0%	4.5%	4.0%	4.0%
$10,001 - $30,000	7.5%	7.0%	6.0%	6.0%
$30,001 - $40,000	9.0%	7.0%	6.0%	6.0%
Above $40,000	9.0%	8.7%	8.5%	8.5%

Table 4-10
Projected Growth in DC Resident Earnings, Population, and Employment, Fiscal Years 2002-2007

Fiscal Year	% Growth Earnings of DC Residents	% Growth Resident Population	% Growth Resident Employment
2002	2.5%	-0.5%	-1.7%
2003	3.6%	0.5%	-1.8%
2004	4.6%	0.9%	1.6%
2005	4.6%	0.6%	1.9%
2006	4.6%	0.7%	1.2%
2007	4.8%	0.7%	1.1%

Source: Estimated by the D.C. Office of Research and Analysis

to decrease 4 percent in FY 2003 compared to FY 2002 collections and are projected to decrease by an average of 3 percent thereafter.

Income Taxes

The individual income, the corporate franchise and the unincorporated business franchise taxes are significant sources of District tax revenue. Collectively, these taxes represent 33 percent of FY 2002 local source revenue. Revenue for these sources is summarized in Table 4-8.

Individual Income Tax

Base and Rate

The individual income tax, the District's largest single source of tax revenue, accounted for 28 percent of Total Local Source Revenue in FY 2002. The tax is levied on all individuals who maintain a permanent residence in the District at any time during the tax year and on those who maintain a residence for a total of 183 or more days. Individuals exempt from the District's personal income tax include: elected officers of the federal government; presidential appointees subject to confirmation by the U.S. Senate; justices of the United States Supreme Court not domiciled in the District; employees on legislative staffs who are bona fide residents of the state of their elected officer; and all persons working in the District but living outside the District. The tax is currently applied progressively to net taxable income as shown in Table 4-9.

These rates reflect the fiscal year 2004 rate reductions called for by the revised Tax Parity Act of 1999. Originally, the Tax Parity Act of 1999 sought to reduce tax rates in the District of Columbia starting in FY 2000 and was to be fully implemented in FY 2004. In the Budget Support Act of 2002, the Tax Parity Act was revised to help balance the fiscal year 2003 budget. The revised Tax Parity Act delayed the implementation of the tax rate cuts so that the tax cuts restart in FY 2004 and are to be fully implemented in FY 2006.

Under the original and revised Tax Parity Act of 1999, individual income tax rates are reduced from 6 percent to 4 percent for the first bracket, 8 percent to 6 percent for the second bracket, and 9.5 percent to 8.5 percent for the top bracket. In order for tax parity to go forward, the estimated national economic growth rates published in the CBO's winter report must exceed 3.5 percent on a nominal basis and 1.7 percent on a real basis. All tax parity rate reductions will be halted if economic growth is below these critical levels established in the Tax Parity Act.

FY 2002 and FY 2003

In fiscal year 2002, individual income tax revenue fell by a remarkable 14 percent, as mentioned previously. The decline in FY 2002 revenues was much steeper than estimated in May because the May revision to the estimates was made before income tax data from the April filing season were available. In June, data from the filing season showed an unexpected large increase

Table 4-11

Capital Gains of High Income District Residents as a Percentage of Total Adjusted Gross Income, Calendar Years 1997-2000

Year	Percentage of Returns over $75,000	Capital Gains as a % of Total AGI
1997	12%	8%
1998	13%	9%
1999	14%	11%
2000	16%	12%

Source: IRS Statistics of Income 1997 - 2000

in refunds and a steep drop in final payments. The large increase in refunds and the steep drop in final payments probably occurred because of overpayments by taxpayers in the previous tax year. One likely explanation is that taxpayers who made estimated payments overestimated the capital gains portion of their income in light of the steep stock market decline of the previous year. In any case, the effect was a dramatic decline in net individual income tax revenue to the District. As a result, in September 2002, we revised the FY 2002 and FY 2003 revenue estimates downward by $161 million and $294 million, respectively.

FY 2004-FY2007

Predicting turning points in economic activity is notoriously difficult. However, the District believes FY 2003 marks the "bottoming out" of the drop-off in individual income tax revenue. In FY 2004, the District expects revenues of approximately $967 million from the individual income tax, a 3 percent growth from the fiscal year 2003 base. After accounting for Tax Parity and other legislation, the District expects individual income tax revenues of $924 million in FY 2004, an amount basically unchanged from the previous year.

Based on our growth forecasts for the individual income tax base for the period FY 2004-2007, we are estimating modest growth in baseline individual income tax revenue for the period. Long-term growth potential in income tax revenue requires growth in the number of wage-earning residents as well as growth in the level of wages earned by District residents. Earnings of District residents are forecast to grow approximately 4.6 percent in fiscal year 2004 and to average 4.6 percent annual growth through 2007. After a period of negative growth in fiscal year 2003, resident employment is forecast to grow 1.6 percent in fiscal year 2004 and to average approximately 1.4 percent growth through 2007.

A substantial part of the District's individual income tax revenue growth in the late 1990s was due to growth in the capital gains realizations of an increasing number of residents earning $75,000 or more. Between 1994 and 1999, the CBO calculates that actual capital gains realizations nearly quadrupled nationally. The District benefited from this growth in capital gains income, as about the same time there was growth in the number of high-income District residents. According to the IRS Statistics of Income, the percentage of total adjusted gross income generated from the capital gains realizations of high-income District residents increased from 8 percent in 1997 to 12 percent in 2000, while the percentage of high-income earners in the District increased from 12 percent in 1997 to 16 percent in 2000. (See Table 4-11.) However, according to the CBO, capital gains realizations dropped by 50 percent in calendar year 2001 and by 17 percent in calendar year 2002. (See Table 4-12.)

With the recent slump in stock market returns, revenue growth generated from capital gains realizations is expected to fall in 2004. Slower growth in the number of high-income residents is also expected. Over the long term, taxpayers will continue to have capital gains, but these gains will not be a dependable source of accelerated long-term growth. In its January 2003 report, the CBO projects 10 percent growth in capital gains realizations for calendar years 2003 and 2004, after two consecutive years of negative growth in calendar year 2001 and calendar year 2002. The CBO projects minimal growth in capital gains realizations through calendar year 2007, as compared to the pre-2001 growth rates. Given the CBO's growth projections for capital gains realizations, the next few years are likely to bring only moderate growth in the District's individual income tax revenues.

Table 4-12
Actual and Projected Capital Gains
($ billions)

	Realizations	
Calendar Year	In Billions of Dollar	Percentage Change
1998	455	25
1999	553	21
2000	644	17
2001	322	-50
2002	268	-17
2003	294	10
2004	322	10
2005	350	9
2006	380	8
2007	409	8

Sources: Congressional Budget Office; Department of Treasury

Corporate Franchise and Unincorporated Franchise Taxes

The District's franchise tax is imposed on all corporations and unincorporated businesses with legal presence in the District of Columbia. The tax liability is determined by multiplying the rate of 9.975 percent (9.5 percent rate plus a surtax of 5 percent of the base rate) by the net taxable busi ness income that is apportioned to the District of Columbia

Business income is apportioned to the District of Columbia based on a three-factor formula – sales, payroll, and property – with each factor weighted equally. When this apportionment formula does not fairly represent the extent of the taxpayer's business activities in the District, that taxpayer may petition for (or the Office of Tax and Revenue may require) consideration of a different formula.

The minimum tax liability is $100. Income from unincorporated businesses with annual gross receipts of $12,000 or less is excluded from the tax base. Also excluded from the tax base is income from nonresident-owned unincorporated businesses that provide professional services (e.g. law firms). For taxable unincorporated business, owners are allowed a 30-percent salary allowance along with a $5,000 exemption. When 80 percent or more of the entity's income is derived from personal services, the unincorporated business income is taxed under the individual income tax.

The Tax Parity Act enacted in 1999 intended to reduce franchise tax rates from the current effective rate of 9.975 percent to 9.0 percent in

Table 4-13
Gross Receipts Taxes, Fiscal Years 2002-2007
($ thousands)

	FY 2002 (Actual)	FY 2003 (Revised)	FY 2004 (Original)	FY 2005 (Projected)	FY 2006 (Projected)	FY 2007 (Projected)
Public Utility	140,931	151,754	156,164	160,224	163,750	167,352
Toll Telecommunication	55,353	64,958	72,094	78,243	84,916	92,159
Insurance Premiums	35,502	34,000	34,400	34,900	34,900	34,900
Total Gross Receipts	**231,786**	**250,712**	**262,659**	**273,368**	**283,565**	**294,410**

FY 2003 and to 8.5 percent in FY 2004 and thereafter. These reductions were temporarily suspended because of budget constraints. Franchise taxes currently are 9.975 percent.

Corporate Franchise

We anticipate moderate growth in corporate franchise tax collections in FY 2004, consistent with our assumptions of growth in gross state product and stock prices.

The District expects to collect approximately $137.1 million in FY 2003 and $148.4 million in FY 2004 from the corporate franchise tax. Though tax collections in the District closely mirror collections for the same tax at the federal level, there is a degree of variability in District collections. For instance, there were $18 million in refund payments from the corporate franchise tax to a small number of taxpayers in FY 1999 due to a court settlement, thus lowering the collections for that year. In FY 2000 there was a $10 million settlement in the District's favor, again distorting the baseline collections in the corporate tax. In FY 2001 there were collections of $88 million due to unusual events by a small number of taxpayers. Based on a court case in 2002, refunds in FY 2002 were approximately $40 million above originally projected, thereby lowering collections.

Unincorporated Business Franchise

The District expects to collect approximately $63.9 million in FY 2003 and $71 million in FY 2004 from the unincorporated business franchise tax. As with the corporate franchise tax, the decline in FY 2003 collections from the FY 2002 level is partly due to the phase-in of the reductions called for by the Tax Parity Act. Collections from this revenue source are linked to factors as diverse as profits from unincorporated businesses located in the District, personal income growth, the local commercial real estate sector, and collections in the transfer and recordation taxes.

The national commercial real estate and commercial lending sectors fell victim to the national recession in 2001. The large volume of new construction activity in recent years means supply should almost meet the demand for commercial office space in FY 2003 and FY 2004. As supply catches up to demand, a slowdown in construction starts for new commercial projects in the city can be expected in the coming years.

The demand for housing, especially affordable housing, still exceeds supply in the District. In addition, interest rates remained low throughout the last half of 2002, encouraging individuals and families to become homeowners. Recent increases in unemployment and uncertainty about the country's economic recovery have somewhat dampened the enthusiastic increase in homeownership the District saw in 2002.

Based on the conditions for commercial and residential real estate, we expect moderate growth in income for real estate investors, many of whom pay taxes on unincorporated income.

Gross Receipts and Other Taxes

The District of Columbia imposes a gross receipts tax on public utilities operating in the District. Similar taxes are imposed on heating oil companies; natural and artificial gas marketers; electric utilities; long distance telephone companies; subscription television, video and radio service providers; local telephone companies; and wireless telecommunications providers. The District also taxes gross insurance premium receipts. Table 4-13 shows projected revenue from these sources over the period fiscal year 2003 through fiscal year 2007. The following sections describe these taxes.

Public Utility Taxes

The public utility tax is imposed on the gross receipts of gas, electric and local telephone companies. Public utility tax revenues are expected to grow moderately in FY 2004 as natural gas prices are expected to rise and average electricity prices are expected to decline. According to the Department of Energy's outlook through 2025, natural gas prices are expected to rise from 2003 through the out years due to resource depletion and increased demand. Average electricity prices, on the other hand, are projected to decline as a result of cost reductions due to increased competition. Deregulation of the city's regulated energy industries has allowed for greater competition in the marketplace. While Washington Gas and Pepco remain the leading suppliers of natural gas

Table 4-14
Other Taxes, Fiscal Years 2002-2007
($ thousands)

	FY 2002 (Actual)	FY 2003 (Revised)	FY 2004 (Original)	FY 2005 (Projected)	FY 2006 (Projected)	FY 2007 (Projected)
Deed Recordation	89,951	93,495	87,448	88,065	89,199	90,958
Deed Transfer	62,228	70,905	65,547	66,060	66,715	67,427
Economic Interests Transfer	5,078	707	596	595	595	596
Estate Tax	125,889	39,808	42,459	45,287	48,299	51,510
Total Other Taxes	**283,146**	**204,915**	**196,050**	**200,006**	**204,808**	**210,490**

and electricity to customers in the Washington area, the percentage of both residential and commercial customers choosing alternative suppliers is growing steadily.

In June 2001, Washington Gas filed a rate increase application with the Public Service Commission of the District of Columbia in an effort to increase revenue from District customers by about $14 million. However, the Public Service Commission objected to the increase in October 2002 and instead ordered the utility company to lower the rates it charges District customers. Washington Gas appealed that decision, and a ruling on its objection is still pending. A decision either way could affect public utility tax collections in FY 2004. Also, public utility receipts from Washington Gas declined significantly in FY 2002 because of the unusually warm weather during the winter of FY 2002. The weather was reportedly 13 percent warmer than normal, reducing the demand for natural gas and causing a slump in Washington Gas' profits.

In FY 2000, as part of the deregulation of the electricity market and Pepco's transformation from an electric power producer to an electric power distribution company, the District replaced the gross receipts tax imposed on electric utilities with a unit tax on electricity distribution companies. This "distribution" tax revenue is included along with the city's gross receipts tax collections. The tax is imposed on electricity distributors who operate in the District. The tax rate is $0.007 per kilowatt-hour and is equivalent to the current gross receipts tax.

Despite the difficulties experienced by several other energy companies, Pepco continues to do well. On August 1, 2002 Pepco Holdings, Inc. merged with Conectiv, a Wilmington, Delaware-based utility company. The Pepco-Conectiv merger created the largest distribution utility in the mid-Atlantic region. As a result of the merger, Pepco will now fund a $2 million energy trust fund that aids primarily low-income customers. Because the fund was previously supported through a surcharge, District customers will see a 0.3 percent reduction in their residential rates.

As part of the Mayor's efforts to avert a potential budget shortfall in the District's FY 2003 budget, public utility tax rates increased from 10 percent to 11 percent effective January 1, 2003. This rate hike is expected to increase FY 2004 public utility revenues by $14 million. However, the legislation authorizing the rate increase includes a trigger that will restore the 10 percent rate "if the annual revenue estimate forecast in the 4th quarter of a fiscal year exceeds the annual revenue estimate incorporated in the approved financial and budget plan for that fiscal year by at least $105 million."

As always, weather patterns have a significant impact on these receipts—cold periods bring higher natural gas utilization, and heat waves result in heightened electricity consumption.

Toll Telecommunication Taxes
The toll telecommunications tax is levied on the long distance and wireless telecommunications companies for the privilege of providing toll telecommunication service in the District. The tax rate is 10 percent of the gross receipts earned by the company. Effective January 1, 2003, how-

Table 4-15
Value of Property Sold as a Percentage of Total Taxable Property

FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
5.28%	7.25%	7.40%	11.47%	9.25%	12.86%	10.70%

ever, toll telecommunication tax rates increased from 10 percent to 11 percent, again as part of the Mayor's efforts to avert a potential budget shortfall in the District's FY 2003 budget. This rate hike is expected to increase FY 2004 toll telecommunication tax revenues by $6.9 million. The legislation authorizing the rate increase also includes the trigger that will restore the 10 percent rate "if the annual revenue estimate forecast in the 4th quarter of a fiscal year exceeds the annual revenue estimate incorporated in the approved financial and budget plan for that fiscal year by at least $105 million."

The telecommunications industry continues to face numerous regulatory changes and decreasing prices. Long distance providers, such as MCI WorldCom, AT&T, and Sprint, are experiencing steep competition from local Bell telephone companies, such as Verizon, who are now proposing to offer long-distance services. At this time, Verizon is still awaiting approval from the Federal Communications Commission to offer long-distance service in the District. A decision is expected by March 2003. Long-distance providers are also suffering from growth of the wireless industry, which now includes inexpensive long-distance calling plans as a standard feature. With revenues steadily declining and competition looming, long-distance providers have begun to raise rates for the first time in years.

While the wireless industry continues to grow, subscriber growth has slowed after years of rapid gain. Nearly half of all Americans own a cell phone, and competition continues to thrive, driving prices downward. A previous concern for the District was that increased consumer use of wireless services would actually hinder toll telecommunication tax revenue growth. Because wireless providers can be located virtually anywhere, it is impractical to tie provision of services to a location. However, recent legislation that makes statutory changes necessary to conform District code to the related federal Mobile Telecommunications Sourcing Act (MTSA) simplifies the billing process and ensures that calls are not subject to multiple taxation. The legislation defines and designates a user's place of primary use (PPU) as either the user's residence or business address. This method will bring in revenue, as some District residents will make D.C. their PPU, thereby allowing the District sole taxing privileges. However, it will also cause the District to lose revenue, as commuters and visitors to the District who were previously taxed will now designate other states as their PPU.

Insurance Premiums Tax

The insurance premiums tax is levied on insurance policies taken out by District residents as well as on property that is registered in the District, regardless of where the insurance policies are written or initiated. Approximately 50 percent of this revenue source stems from life insurance policies, with other premiums (including business, health, property, and motor vehicle) making up the remaining 50 percent. Insurance rates are currently rising nationwide. Property owners in the District, like those in many other big cities, are seeing premium rates increasing for property, liability and workers' compensation coverage since the attacks on September 11, 2001. Insurers had begun to either substantially increase the price for terrorism coverage (which was previously included for free) or drop the coverage all together. Recently, however, District regulators reached an agreement that would cap premium increases for terrorism coverage at 25 percent.

Insurers are also facing difficulties caused by the declining stock market. Investments that had previously helped offset underwriting losses have turned into losses themselves for many insurance companies. The District's insurance premiums tax rate is 1.7 percent of gross premium receipts, and annuities are tax-exempt. Insurance premium tax revenue was $35.5 million in FY 2002. It is projected to drop to $34.0 million for FY 2003 and then grow only slowly to $34.9 million by FY 2007.

Deed Recordation and Deed Transfer Taxes

In 2002, the deed recordation and the deed transfer taxes were each calculated as 1.1 percent of the fair market value of every arms-length property sale. Deed recordation tax also must be paid on the increased value when commercial property is refinanced. In response to continued strong regional economic activity between 2001 and 2002, collections rose as both the residential and commercial property markets performed at record levels.

Statistical analysis of the deed tax revenue reveals that there are three component sources of deed tax revenue: the commercial real estate sector, the housing sector and commercial refinancing.

In FY 2001, these three components accounted for 62 percent, 28 percent and 10 percent of total deed tax revenue, respectively. In FY 2002, the commercial real estate and housing markets remained strong, but interest rates dropped to historic lows and spurred an enormous amount of commercial refinancing. Consequently, these three components accounted for 55 percent, 28 percent and 17 percent of total deed tax revenue, respectively. Refinancing activity is measured by the difference between the deed recordation and deed transfer taxes.

As FY 2003 proceeds, the District appears likely to retain its designation as the top commercial real estate market in the nation. The designation stems from the fact that the District's stable office tenant base of the federal government, the legal sector and large associations has significantly insulated the city from the national economic downturn. Although the District's office vacancy rate rose to approximately 5.6 percent, the vacancy rate is still considered a sign of strength compared to virtually every other major market in the United States. The District is expected to retain its title as a top market for the next several years, but there are significant indications that the District's deed taxes may not hit record levels over the same time period.

FY 2003 is expected to be a busy time for construction crews, as many large construction projects in the District reach completion. Thereafter, however, there is no driver for new robust commercial office building in the city. All of the commercial office buildings being delivered to the market in 2003 began construction before the economic malaise beset the national and local economies. In 2002 and 2003 new demand for large blocks of commercial office space is almost nonexistent. Potential tenants are being very cautious about spending, and businesses are not growing for the most part. Additionally, the federal government has not moved as quickly as some would like in demanding new space for federal agencies. The decrease in the demand for new office space is expected to cause a drop in deed tax revenue in FY 2004. But once the economic malaise over the national and local economies lifts, deed tax revenue is expected to grow again beginning in FY 2005.

Nevertheless, with an interest rate increase by the Federal Reserve expected to be at least a year away, the low interest rate environment will continue to support commercial refinancings and even some additional investment in office buildings. In theory, what could be lost in future income (from slowing office leasing demand) can be made up in low borrowing costs. The record level of deed recordation taxes stemming from refinancing activity in 2002 supports this notion. Additionally, the demand of large institutional investors, pension funds, and very wealthy real estate investors for District commercial real estate remains extremely strong, primarily because of the lack of profitable investment alternatives. This, too, will help keep deed tax revenue at relatively high levels from 2003 to 2007.

Turning to the housing sector, it is estimated that deed revenue in FY 2002 increased by $5.5 million over FY 2001. The increase in deed tax revenue from the housing sector can come from either the increase in the number of sales and/or increases in property sale values. Not only did sales of single-family homes and condominiums in the District increase by 9 percent and 15 percent, respectively, but the median single family home and condominium sale price also increased by 14 percent and 13 percent, respectively. Thus the District's housing sector has continued to grow despite a slowing economy. Furthermore, there were over 13,000 residential units that either were completed or were under constriction in the District in August 2002, and there were an additional 17,000 units either proposed or planned. Hence, District housing sales are growing both handsomely and at a nice even pace.

With approximately 14 percent growth in housing prices in 2002 over 2001, affordable housing remains a problem. Housing affordability takes into account the combined effects of low interest rates, income growth and price appreciation. The decline in interest rates and growth in personal income have offset rapidly growing housing prices, thereby preserving housing affordability for many in the District. But for many others in the District, this is not enough. To help mitigate the housing affordability problem, the federal government created the first-time $5,000 homebuyer credit, and the District government actively encourages housing developers to build a certain percentage of affordable housing units in new housing development projects. In January 2003, the Mayor announced that 26 affordable housing and community facility projects are eligible to share $25 million in District funding. This city funding will leverage over $145 million in private and public resources for the development of approximately 1,853 units of long-term affordable housing and community facilities.

Deed taxes were also affected by two legislative changes in FY 2002. The Deed Recordation Tax Amendment Act of 2002 increased both the deed recordation and deed transfer tax rates from 1.1 percent to 1.5 percent, effective January 1, 2003. The amendment excludes owner-occupied properties with a value that does not exceed $250,000 if the deed is recorded within 30 days of transfer and accompanied by the application for the Homestead Deduction. Also, the Housing Production Trust Fund Second Amendment Act of 2002 requires that 15 percent of the District's deed recordation and transfer tax revenue be transferred to the Housing Production Trust Fund beginning in FY 2004. The Housing Production Trust Fund provides funds for the acquisition, construction and rehabilitation of affordable multifamily housing projects. These legislative changes, combined with the other dynamics in the local real property market, will keep deed taxes growing at approximately 1 percent per year, particularly after FY 2004.

The strong demand for and limited supply of real estate in the District will provide the key impetus for the growth in deed taxes from FY 2003 to FY 2007, especially considering that the value of property sold as a percentage of total taxable property has grown on average by more than 12 percent per year since FY 1996.

Economic Interests Tax

The economic interests tax on a sale of interests in property is triggered when 1) 80 percent of the assets of a corporation being transferred consists of real property located in the District of Columbia; and 2) more than 50 percent of the controlling interest of the corporation is being transferred. If these two elements are present, then the tax rate is 2.2 percent of the consideration. This tax is generally paid by real estate investment trusts and similar partnerships.

Economic interests transfers are normally very large and infrequent. There can be a long period of time leading up to the final payment of the economic interests tax, as corporate lawyers and the Recorder of Deeds determine exemptions and liabilities for the tax. Revenue from the economic interests tax increased from $1.6 million in FY 2001 to $5.1 million in FY 2002. Beginning in FY 2003, however, economic activity subject to the economic interests tax is expected to return to historic levels. Consequently, economic interests tax revenue is projected to average about $0.6 million per year over the FY 2004 to FY 2007 period. The Deed Recordation Tax Amendment Act of 2002 increased the economic interests tax rate from 2.2 percent to 3.0 percent, effective January 1, 2003.

The Estate Tax

Prior to 2002, the District of Columbia piggybacked on the federal estate tax system, using the federal "state death tax credit" as the starting point for the District estate tax computation. Under this system, District taxpayers received a dollar-for-dollar credit against their federal estate tax payments for any estate tax due to the District of Columbia. District estate taxes, therefore, imposed no additional burden on decedent estates and did not increase the total estate tax payment beyond what would have been paid under federal law. This revenue-sharing approach provided for a system of uniformity across all states and the District of Columbia in the collection of death taxes. It resulted in minimal estate tax administration on the part of District and minimized the impacts of "death shopping" to reduce estate taxes at death.

The federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 changed this situation. This legislation gradually eliminates the federal estate tax over the next several years, with full repeal taking effect in year 2010. Effective January 1, 2002, the EGTRRA legislation:

- Lowers tax rates for the largest estates;
- Raises the exemption level from $650,000 to $1 million in 2002, $1.5 million in 2004, $2 million in 2006, and $3.5 million in 2009; and
- Lowers the state credit from 16 percent to 12 percent in 2002, 8 percent in 2003, and 4 percent in 2004. In 2005, the credit will be eliminated.

Existing District law, however, stipulates that the amount due to the District is the maximum credit for state death taxes allowed under Internal Revenue Code §2011, as it existed on January 1, 1986. This means that existing District estate tax laws are automatically decoupled from recent and forthcoming federal estate tax law changes. For example, while the federal threshold is $1 million, the District Inheritance and Estate Tax Act of 2002 raised the District's filing threshold from $600,000 to $675,000, effective January 1, 2002. Hence, some District estate tax payers may be required to file and pay District estate taxes even when no federal filing or tax is due.

In the past, District estate tax payers have relied on federal law when filing estate tax forms and payments. It will take time to educate current and future District estate tax payers about new District estate tax laws and tax forms. Additionally, stepped up administration and compliance efforts by the District in processing and auditing estate tax returns will take some time to get into full swing. So despite record level estate tax revenue in FY 2002, which was primarily the result of an unusually large estate tax payment, estate tax revenue is expected to amount to only $39.8 million in FY 2003 as the District transitions to the new system. Afterwards, revenue is expected to grow at approximately 6.7 percent per annum.

Non-Tax Revenues

Total non-tax collections decreased $43.2 million from FY 2001 to FY 2002. Factors that contributed to this decrease in non-tax revenue included the following:

- Alcoholic Beverage Licenses are now Special Purpose Revenue funds. Unlike in previous years, collections from this revenue source did not contribute to Local Funds in FY 2002. This change reduced Local Fund revenue by a total of $1.3 million in FY 2002.
- A portion of the Right of Way revenue was diverted to Special Purpose Revenue during FY 2002. This reduced Local Fund revenue in FY 2002 by a total of $12 million.
- Interest income was $23.6 million lower in FY 2002 than in FY 2001. Interest rates dropped significantly throughout the year, reducing the amount of interest earned on cash holdings.
- There were a number of one-time collections included in miscellaneous other revenue in FY 2001, including $23 million in health benefit forfeitures and $12.7 million transferred to the General Fund from the Public Benefit Corporation Transition as a part of the closing out of hospital balances in FY 2001.

Factors that somewhat offset the decrease in revenue between FY 2001 and FY 2002 include

Table 4-16

Sales Tax Forecast for the Convention Center Fund, Fiscal Years 2003-2007

($ thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Restaurant SalesTax	16,909	17,676	18,513	19,409	20,315
Hotel Sales Tax	39,454	41,245	43,197	45,287	47,403
Total	**56,363**	**58,921**	**61,710**	**64,696**	**67,718**

the following:

- The Department of Public Works hired additional parking control officers to increase enforcement of required registrations for out-of-state vehicles, reciprocity permits and off-street parking laws in the District. This resulted in an increase in collections of $576,000 from motor vehicle licenses and registrations and an increase of $14 million in collections from traffic fines in FY 2002.
- Collections from speeding cameras generated $16.3 million in FY 2002. This was a new revenue source in FY 2002.
- Collections from Security Broker Fees, SEC Registration Fees, and Investment Advisors fees were $1.6 million higher in FY 2002 than in FY 2001.

Total non-tax collections are estimated to be $12.5 million higher in FY 2003 than collections in FY 2002. Factors contributing to this increase in non-tax revenue include the following:

- Many insurance licenses are renewed every other year. Therefore, collections from this source are higher in the odd years. Insurance licenses are estimated to be $3.7 million higher in FY 2003 than in FY 2002.
- Collections from motor vehicle registrations are expected to increase in FY 2003. Registration fees have been increased by an average of 30 percent and are estimated to generate an additional $6 million in FY 2003.
- In addition to the increased number of parking control officers, a number of parking violation fines have been increased in FY 2003. These include infractions for expired meters, parking in alleys, handicapped parking, and no parking/street cleaning. Collections from traffic fines are expected to increase $11.3 million
- As a result of the expansion of the automated traffic enforcement program by the Metropolitan Police Department, collections from speeding cameras are estimated to generate an additional $4.4 million in FY 2003.
- Interest income is estimated to be $1.9 million higher in FY 2003 than in FY 2002. Interest rates are expected to increase during FY 2003, yielding higher income from interest than in the previous fiscal year.
- The Department of Corrections receives payment from the federal government as reimbursement for the costs associated with housing felons in local correctional facilities. In FY 2003, the DOC will also bill the U.S. Marshals Service to be reimbursed for housing Superior Court felons. This is expected to generate $8 million more than was originally estimated for FY 2003.

Factors that will offset the increase in FY 2003 collections from non-tax revenue include the following:

Table 4-17

Highway Trust Fund, Fiscal Years 2002-2007

($ thousands)

	FY 2002 (Actual)	FY 2003 (Revised)	FY 2004 (Original)	FY 2005 (Projected)	FY 2006 (Projected)	FY 2007 (Projected)
Motor Fuel Tax	27,347	28,908	29,370	29,833	30,295	30,757

- Beginning in FY 2003, all Right of Way fees will be collected in the Local Roads and Maintenance Fund and will no longer contribute to the General Fund. This will result in an $18 million decrease in General Fund revenue for FY 2003 compared to FY 2002.
- The sale of surplus property to the U.S. Government for the construction of the Bureau of Alcohol, Tobacco and Firearms Headquarters Building generated $11.5 million in General Fund revenue during FY 2002. A sale of this size is not expected in FY 2003.
- Prior year cost recovery is the difference between the amount estimated each year as an accrued liability to the District and the actual liability over the course of the fiscal year. Prior year cost recovery is shown as miscellaneous revenue and is recorded at the end of each fiscal year. This contributes to the decrease from FY 2002 to FY 2003 because in FY 2002, this amount was $11.1 million and there is no estimate shown for FY 2003.

Total non-tax collections are estimated to be $3.9 million higher in FY 2004 than collections in FY 2003. Factors contributing to this increase in non-tax revenue in FY 2004 include the following:

- Collections from miscellaneous revenues are estimated to be $5.2 million higher in FY 2004 than in FY 2003. Interest rates are expected to rise during FY 2003 and into FY 2004. Therefore, interest income is expected to be higher in FY 2004.

Factors that will offset the increase in estimated non-tax revenues in FY 2004 include the following:

- Collections from business licenses and permits are estimated to be $2 million lower in FY 2004 than in FY 2003. This is due to the fact that some insurance licenses are renewed every other year, creating a cyclical trend in annual collections.
- Collections from charges for services are estimated to be $1.3 million lower in FY 2004 than in FY 2003. This is due to the fact that some corporation recordation fees are collected every other year for two-year licenses, creating a cyclical trend in the annual collections.

Special Funds and Earmarked Revenues

District of Columbia revenues include both special funds and earmarking of General Fund revenues.

Special Funds

The District operates several special funds financed by tax revenues, including the Convention Center Fund and the Highway Trust Fund. These revenues are not available to the General Fund and the Appropriated Budget.

Convention Center Fund. Beginning in FY 1999, the formula financing the Convention Center Fund includes only sales tax revenue from hotels, restaurants, rental vehicles, and sales of pre-paid phone cards. The hotel tax rate is 14.5 percent with 4.45 percent dedicated to the Convention Center Fund while 10.05 percent tax remains in the District's General Fund. The 10 percent restaurant sales tax is divided so that 1 percent goes to the Convention Center Fund and 9 percent remains in the General Fund.

Motor Fuel Tax. The motor fuel tax is assessed at $0.20 per gallon. Motor vehicle fuel tax revenue is deposited directly into a special account, the Highway Trust Fund, and is not General Fund revenue. The Highway Trust Fund uses both local-source and federal matching funds to construct, repair and manage eligible District roads and bridges. Approximately 400 of the 1,020 miles (or 39.2 percent) of street and highways, as well as 229 bridges in the District, are eligible for federal aid.

The motor fuel tax is levied on fuel wholesalers, and yearly variations in tax collections are primarily a function of fuel consumption. In the past, revenues averaged approximately $30 million a year. However, FY 2002 fuel tax revenues were 4.5 percent below FY 2001 revenues. The exact causes of the decrease are not clear, but it is likely related to the slowing national and local economies. With the forecast for the local economy improving, revenues are projected to amount to $28.9 million in FY 2003. Based on a time series analysis of recent trends, fuel tax revenues are forecast to grow approximately 1.5 percent per year beginning in FY 2004. This is generally consistent the U.S. Energy Information Agency and Global Insight forecasts for national gasoline demand, which are 1.7 percent and 1.5 percent, respectively. These latter forecasts attribute growth in fuel demand to an accelerating U.S. economy (particularly from the commercial sector) and decreases in the improvement in vehicle fuel efficiency.

Revenue Initiatives

The FY 2004 budget includes a number of revenue initiatives:

- Delay individual income tax reductions under Tax Parity;
- Institution of a 0.6 percent surtax on taxable income above $100,000;
- Addition of selected services to the general sales tax base;
- Increasing the parking tax to 18 percent;
- Intrafund transfers of revenues to the General Fund from the Housing Production Trust Fund, Emergency-911, and Health Science Regulation;
- New parking meters; and
- Marshal's per diem to General Fund.

Delay Individual Income Tax Reductions Under Tax Parity

The individual income Tax Parity tax cuts are currently set to resume in FY 2004. This proposal delays the individual income tax cuts under the Tax Parity Act until FY 2007. This proposal generates $24 million in savings in FY 2004; $77.1 million in FY 2005; $141 million in FY 2006; and $125.2 million in FY 2007.

Institute a Surtax on Net Taxable Income Above $100,000

This proposal institutes a 6 percent surtax on net taxable income above $100,000 for FY 2004 and FY 2005. Under this proposal, the net taxable income of District residents in excess of $100,000 would be subject to a 0.6 percent tax (6 percent of the 9.3 percent rate) in addition to the 9.3 percent individual income rate applied to the top income bracket. The surtax is expected to generate an additional $22.2 million in FY 2004 and $23.3 million in FY 2005.

Add Selected Services to General Sales Tax Base at 5.75 Percent Rate

The sales tax was devised when most transactions involved manufactured goods. Currently, most transactions involve services, not tangible goods. These services are currently not taxed, unlike tangible goods. The proposed change would allow the sales tax to be charged and collected on selected services in a similar manner to the sales tax on tangible goods. The services to be subject to tax include: home repair, dating services, health club memberships, car towing, security services, admission to museums, cultural and live events, pet-grooming, and investment counseling. The proposal is estimated to provide $4 million in additional revenue in FY 2004 through FY 2007.

Increase Current 12 Percent Parking Rate to 18 Percent

The current rate has been in existence since 1976 and has not been adjusted for inflation. This proposal will adjust this sales tax rate for inflation. The proposal is estimated to provide $21.7 million in FY 2004, $22.6 million in FY 2005, $23.6 million in FY 2006 and $24.6 million in FY 2007.

Intrafund Transfers

As an intrafund transfer revenue initiative, the Mayor is proposing to transfer $9 million from the Housing Production Trust Fund to the General Fund in FY 2004. Additionally, he proposes that $2 million and $4 million in Emergency 911 and Health Science Regulation designated fund balances, respectively, be reallocated to the General Fund.

New Parking Meters

In an effort to increase the amount of available parking spaces in the District, the Department of

Transportation has identified new locations in the city where additional parking meters will be installed. Installation of the meters is expected to begin in the latter part of FY 2003. The meters will be fully operational by January 2004. Revenue from these meters is estimated to generate an additional $1.7 million annually to the General Fund.

Marshal's Per Diem to General Fund

The Department of Corrections will increase the amount of bed space available at the Correctional Treatment Facility for the housing of felons in FY 2004. The U.S. Marshals Service will reimburse the Department of Corrections according to the number of additional bed spaces. The additional revenue from the reimbursements is estimated to generate $3 million annually to the General Fund.

Notes on the Data and the Revenue Estimates

In the tables and estimates contained in this chapter, actual revenues are reported for FY 2002, estimated revenue for FY 2003-2004, and projected revenues for FY 2005-2007. Actual revenues correspond to amounts that are reported in the Comprehensive Annual Financial Report (CAFR) for FY 2002. The Office of Research and Analysis (ORA) prepares the estimates and projections based on current law, policy, and administrative quality. No changes in tax structure, tax rates, or addition or elimination of revenue sources are included as part of the estimate unless already legislated and able to be implemented.

Procedures for Estimating Revenue

The process of estimating revenue begins a year in advance. The estimates for FY 2004, for instance, were begun in September 2002.

In September we issue a revenue call to all agencies requesting reports and projections on the amount of user fees, fines, and other types of non-tax income agencies expect to generate.

Economic forecasting assumptions for the District are received from two nationally-known economic analysis and forecasting firms, Global Insight (formerly DRI-WEFA) and Regional Financial Associates (RFA), in late summer or late fall. These assumptions help us build the base for growth over the forecast horizon.

During the late summer and throughout the fall, analysts maintain contact with people throughout the District government who are knowledgeable of the collection of all tax and non-tax revenues. This includes the Office of Tax and Revenue and agencies that have user fees or that impose fines. This gives us a good feel for progress in meeting the current year's goals and for understanding likely trends in the near future.

Analysts follow the year-end closing to be aware of accounting issues that might affect revenues—for instance, changes in accounts receivable or reserves that might impact revenue numbers.

Two advisory groups help us understand the economy:

- The first, a technical advisory group, meets in December and June and is composed of experts in revenue forecasting. Membership includes representatives from the CBO, the Richmond Federal Reserve, the State of Virginia, the State of Maryland, and other jurisdictions and related organizations.
- The second advisory group, composed of knowledgeable local business representatives, advises us about current economic trends and helps us understand where the private sector thinks things are heading. This group meets with us in January and July. Members of this group represent the hotel and tourism industry, real estate and housing, banking and finance, neighborhood groups, downtown development interests, the education sector, and other interests.

Updated economic assumptions are received from forecasting firms in January. This allows us to fine-tune our projections based on the most recent data available before the final forecasts are released.

At the end of January, CBO releases its Winter Report. This provides recent and valuable guidance on where the national economy is expected to go over the next ten years. As the national economy has a great deal of impact on the D.C. economy, this report is a valuable tool in the final stages of the revenue estimation process.

Subsequent steps in revenue estimating are part technical and part investigative.

The technical part of revenue estimating involves using econometric methods to find statistically valid models that replicate past collections and project confidence intervals for future collections. The models use explanatory variables to account for revenue collections over time relying on relationships between (a) the money collected by the District in a given tax type, and (b) economic variables that track the underlying tax base. For example, in the unincorporated business tax, one model shows a strong lagged relationship between employment in construction and activity in the real estate market (as measured by collections in the transfer tax). This makes sense given that much of the activity that is taxed by the unincorporated business franchise tax is in the real estate and construction segments of the D.C. economy. The economic forecasting variables are used directly in these methodologies.

The rest of the process is where the investigating comes into play. The next step is to incorporate the revenue impact of legislation and additional factors that cannot be captured by econometric models. We know, for instance, that when the new convention center opens in March 2003 there will be an impact in the amount of revenue generated by the sales tax, particularly at the restaurant and hotel sales tax rates. No model can capture this impact, so we must include an estimate of the impact in our revenue projections.

The final step is to run a reality check on the numbers produced. To do this, we compare the projected trends with those of the Congressional Budget Office and neighboring jurisdictions. If our projections are substantially different for individual income tax collections than what CBO is projecting, for example, we need to explain the difference. This helps ensure that our understanding and knowledge of the fundamentals of a tax type are consistent with those of other professionals in the field. The pattern of changes over the projection horizon is also scrutinized in this phase of the process. A dramatic jump or drop from one period to the next needs to be understood.

For the FY 2003 estimates, we contracted with KPMG to review our data and estimating methodologies, determine whether the methodologies are correctly implemented, and recommend changes where they find areas of weakness. Overall, they conclude that ORA uses sound methodologies and implements them competently. They also found that the greatest cause of uncertainty in the estimates is the quality of the data.

Additional Information on D.C. Revenues

Table 4-18 looks at the revenue impact of incremental changes in the tax rates effective 2003 – for instance, lowering a tax rate by one cent or by one percentage point. These numbers are not presented as definitive fiscal impact statements, but instead represent rules of thumb to evaluate general legislative proposals.

Tables 4-19 through 4-23 provide additional detail on what the District taxes, at what rates, and how much revenue these taxes yield.

Table 4-18
Annual Impact of Changes in Tax Rates

	Tax	Annual Impact
Real Property:		
One cent change in tax rate by class	Owner-Occupied ($0.96)	$1.44 M
	Non Owner-Occupied ($0.96)	$0.80 M
	Hotel/Motel ($1.85)	$0.25 M
	Commercial ($1.85)	$2.07 M
	Abandoned/Vacant ($5.00)	$0.02M
	TOTAL	$4.58 M
Eliminate homestead exemption		$30.8 M
Eliminate senior credit		$16.9 M
Personal Property Tax:		
One cent change in tax rate (now $3.40 per $100 value)		$0.20 M

Note: Assumes no change in stock of personal property

Sales and Use Tax:		
One percent change in each tax rate	General rate (5.75%)	$54.56 M
	Liquor rate (9%)	$1.79 M
	Restaurant rate (10%)	$16.98 M
	Parking rate (12%)	$2.07M
	Hotel, motel rate (14.5%)	$8.17 M
	TOTAL	$83.58 M

Note: Does not include estimates of elasticity of various tax rates.
Figures shown are before Convention Center distribution.
Figures include use tax

Eliminate sales tax on business purchases		$103 M
Alcoholic Beverage Tax:		
One cent change in tax rate	Beer ($0.09 rate per gallon)*	$123 K
	Spirits ($1.50 per gallon)	$16 K
	Light Wine ($0.30 per gallon)	$24 K
	Heavy Wine ($0.40 per gallon)	$2 K
	Champagne, Sparkling Wine ($0.45 per gallon)	$29 K
	TOTAL	$193 K
* Equivalent to tax rate of $2.79 per 31-gallon barrel.		
Cigarette Tax:		
One cent change in tax rate	Cigarette tax rate $1.00 per pack	$0.18 M

Note: Assumes elasticity of 0.5, figure shown assumes rate increase.

Table 4-18 (continued)

Annual Impact of Changes in Tax Rates

Tax		Annual Impact
Motor Vehicle Excise Tax:		
One percent change in each tax rate (current rates now 6%, 7%)		$2.8 M
Motor Vehicle Fuel Tax:		
One cent change in tax rate (current rate $0.20 per gallon)		$1.7 M
Individual Income Tax:		
One percent change in each rate (FY 2002 rates 5%, 7.5% and 9.3%)		
	Taxable Income of $0-$10,000 at 5%	$22.3 M
	Taxable Income $10,000-$30,000 at 7.5%	$15.2 M
	Taxable Income over $30,000 at 9.3%	$53.1 M
	TOTAL ALL THREE RATES	$90.6 M
Increase personal exemption from $1,370 to $1,500		$5.6 M
Increase standard deduction from $1,000/$2,000 to $2,000/$4,000		$12.7 M
Reduce top rate to 9.0% (now 9.3%)		$25.6 M
Corporate Franchise Tax:		
One percent change in tax rate (current rate 9.975%)		$15.1 M
Unincorporated Business Franchise Tax:		
One percent change in tax rate (current rate 9.975%)		$5.2 M
Public Utility Tax:		
One percent change in tax rate (current rate 10.0%)		$13.5 M
Toll Telecommunications Tax:		
One percent change in tax rate (current rate 10.0%)		$6.2 M
Deed Recordation Tax:		
One-tenth percent change in transfer tax rate (current rate 1.1% for homes valued below $250K, 1.5% for all other taxable property transfers)		$7.02M
Deed Transfer Tax:		
One-tenth percent change in transfer tax rate (current rate 1.1% for homes valued below $250k, 1.5% for all other taxable property transfers)		$5.04 M
Economic Interests Tax:		
One-tenth percent change in tax rate (current rate 3.0%)		$0.16 M

Table 4-19

Summary of District of Columbia Tax Rates as of:

	10/1/02	10/1/03
Real Property (per $100 of assessed value)		
Class 1 - Occupied Residential [a]	$0.96	$0.96
Class 2 - Commercial Property	$1.85	$1.85
Class 3 - Unimproved or Abandoned Property	$1.85	$5.00

[a]/ Owner-occupied residential real property is subject to a homestead exemption of $30,000 and a senior citizen exemption.

	10/1/02	10/1/03
Personal Property (per $100 of assessed value)	$3.40	$3.40
General Sales Tax (per $1.00 of sales)		
General Rate	5.75%	5.75%
Alcohol Sold for Off-Premises Consumption	8.0%	9.0%
Restaurant Meals, Alcohol Sold for On-Premises Consumption, Rental Vehicles, Prepaid Phone Cards	10.0%	10.0%
Parking	12.0%	12.0%
Hotel/Motel Accommodations	14.5%	14.5%
Alcoholic Beverage Tax		
Beer	$2.79 per 31 gal. barrel	$2.79 per 31 gal. barrel
Distilled Spirits	1.50 per gallon	1.50 per gallon
Wine = 14% Alcohol	0.30 per gallon	0.30 per gallon
Wine > 14% Alcohol	0.40 per gallon	0.40 per gallon
Champagne/Sparkling Wines	0.45 per gallon	0.45 per gallon
Cigarette Tax (per pack)	$0.65	$1.00
Motor Fuel Tax (per gallon)	$0.20	$0.20
Motor Vehicle Excise Tax		
3,499 lbs. or less	6% of value	6% of value
3,500 lbs. or more	7% of value	7% of value
Hotel Occupancy Tax (effective 10/1/98)	Eliminated	Eliminated
Individual Income Tax		
Taxable Income:	Marginal rates, calendar year 2003	Marginal rates, calendar year 2004
$ 0 - $ 10,000	5.0%	5.0%
$ 10,001 - $ 30,000	7.5%	7.5%
$ 30,001 and over	9.3%	9.3%
Corporation and Unincorporated Business Franchise	9.975%	9.975%
Public Utility Gross Receipts	10.0%	11.0%
Toll Telecommunication Gross Receipts	10.0%	11.0%
Insurance Gross Premiums	1.7%	1.7%
Estate Tax	Federal Credit	Tax Table
Deed Recordation and Transfer Taxes	1.1%	1.5%
Economic Interests Tax	2.2%	3.0%

Source: District of Columbia Tax Facts and Office of Tax and Revenue.

Table 4-20
Summary of Major Taxes in the District of Columbia, Fiscal Year 2003

PART A—GENERAL FUND TAXES

TAX	DESCRIPTION OF WHAT IS TAXED	RATE	FY 2002 REVENUE
REAL PROPERTY TAX	All real property, unless expressly exempted, is subject to the real property tax and is assessed at 100% of market value. With the property tax year beginning October 1, 2002, the District of Columbia increased the number of property classes from two to the following three classifications of property: Class 1--improved residential real property that is occupied and is used exclusively for nontransient residential dwelling purposes; Class II-commercial property; and Class III - unimproved or abandoned property. *D.C. Code Citation: Title 47, Chapter 7 - 14.* The District's Real Property Tax Year is October 1 through September 30.	**Property Class** / **Tax Per $100 of Value** Class 1 — $0.96 (*) Class 2 — $1.85 Class 3 — $5.00 (*) For owner-occupied residential real property, the first $30,000 of Assessed Value is exempt from the tax.	$ 726,014,000
PERSONAL PROPERTY TAX	All tangible property, except inventories, used or available for use in a trade or business. *D.C. Code Citation: Title 47, Chapter 15 - 17.*	$3.40 per $100 of assessed value Note: As of July 31, 2000, both an accelerated depreciation schedule for computer equipment; and a $50,000 taxable value threshold on personal property are adopted.	$ 65,208,000
PUBLIC SPACE RENTAL	Commercial use of publicly owned property between the property line and the street. *D.C. Code Citation: Title 7, Chapter 10.*	Various rates for the following: Vault, Sidewalk (Enclosed and Unenclosed). Sidewalk Surface, and Fuel Oil Tank	$ 12,167,000
SALES AND USE TAX	All tangible personal property and certain selected services, sold or rented to businesses or individuals at retail in the District. Groceries, prescription and non-prescription drugs, and residential utility services are among those items exempt from the sales tax. The use tax is imposed at the same rate as the sales tax rate on purchases made outside the District and then brought into the District to be used, stored or consumed, providing that the purchaser has not paid the sales tax on the purchases to another jurisdiction. *D.C. Code Citation: Title 47, Chapters 20 and 22.*	A five-tier rate structure is presently in effect: 5.75% General rate for tangible personal property and selected services, 9% Liquor sold for off the premises consumption 10% Restaurant meals, liquor for consumption on the premises, rental vehicles, prepaid phone cards 12% Parking motor vehicles in commercial lots 14.5% Transient accommodations Note: The following portions of the sales tax go to the Convention Center Fund: 1% of sales tax from restaurant meals etc., and 4.45% of sales tax from transient accommodations. Sales tax on internet access is eliminated.	$ 612,354,000 (a)

ALCOHOLIC BEVERAGE TAX	Alcoholic beverages manufactured by a holder of a manufacturer's license and beverages brought into D.C. by the holder of a wholesaler's or a retailer's license. *D.C. Code Citation: Title 25, Chapter 1.*	Beer –$2.79 per 31 gallon barrel Light wine =14% alcohol—30¢ per gal Heavy wine >14% alcohol—40¢ per gal Champagne/sparkling wine– 45¢ per gal Spirits -- $1.50 per gallon	$4,721,000
CIGARETTE TAX	The sale or possession of cigarettes in the District. Cigarettes sold to the military and to federal Government are exempt. *D.C. Code Citation: Title 47, Chapter 24.*	$1.00 per package of twenty cigarettes	$ 17,189,000
MOTOR VEHICLE EXCISE TAX	Issuance of every original and subsequent certificate of title on motor vehicles and trailers. *D.C. Code Citation: Title 40, Chapter 7.*	Based on manufacturer's shipping weight 6% of fair market value-3,499 lbs or less 7% of fair market value-3,500 lbs or more	$ 34,573,000
INDIVIDUAL INCOME TAX	The taxable income of an individual who is domiciled in the District at any time during the tax year, or who maintains an abode in the District for 183 or more days during the year. *D.C. Code Citation: Title 47, Chapter 18.*	For Calendar Year 2003: Taxable Income — Tax Rate First $10,000 — 5.0% Over $10,000, but Not over $30,000 — $500 + 7.5% of excess over $10,000 Over $30,000 — $2,000 + 9.3% of Excess over $30,000	$ 949,175,000
CORPORATE FRANCHISE TAX	Net income of corporations having nexus in the District. All corporations engaging in a trade, business or profession in the District of Columbia must register. *D.C. Code Citation: Title 47, chapter 18.*	The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.	$ 142,647,000
U. B. FRANCHISE TAX	Net income of unincorporated businesses with gross receipts over $12,000. A 30% salary allowance for owners and a $5,000 exemption are deductible from net income to arrive at taxable income. A business is exempt if more than 80% of gross income is derived from personal services rendered by the members of the entity and capital is not a material income-producing factor. A trade, business or professional organization which by law, customs or ethics cannot be incorporated is exempt. *D.C. Code Citation: Title 47, chapter 18.*	The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.	$ 68,602,000
PUBLIC UTILITY TAX	Gross receipts of gas, electric and local telephone companies. *D.C. Code Citation: Title 47, Chapter 25.*	11% of gross charges	$140,931,000
TOLL TELECOMMUNICATIONS TAX	Gross receipts of companies providing toll telecommunication service in the District. *D.C. Code Citation: Title 47, Chapter 38.*	11% of gross charges	$ 55,353,000
INSURANCE PREMIUMS TAX	Gross insurance premiums received on risks in the District, less premiums received for reinsurance assumed, returned premiums and dividends paid to policy-holders. The tax is in lieu of all other taxes except real estate taxes and fees provided for by the District's insurance law. *D.C. Code Citation: Title 35; Title 47, Chapter 26.*	1.7% on gross premium receipts	$ 35,502,000
ESTATE TAX	The estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable situs in the district at the time of his or her death. *D.C. Code Citation: Title 47, Chapter 19.*	Tax due is determined by using the D.C. Estate Tax Computation Worksheet after computing the exempted amounts.	$ 125,889,000

DEED RECORDATION TAX	The recording of all deeds to real estate in the District. The basis of the tax is the value of consideration given for the property. Where there is no consideration or where the consideration is nominal, the tax is imposed on the basis of the fair market value of the property. *D.C. Code Citation: Title 45, Chapter 9.*	1.5% of consideration or fair market value	$ 89,951,000
DEED TRANSFER TAX	Each transfer of real property at the time the deed is submitted for recordation. The tax is based upon the consideration paid for the transfer. Where there is no consideration or where the amount is nominal, the basis of the transfer tax is the fair market value of the property conveyed. *D.C. Code Citation: Title 45, Chapter 9.*	1.5% of consideration or fair market value	$ 62,228,000
ECONOMIC INTEREST TAX	The economic interest transfer tax is triggered by two (2) elements. These elements are 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. The consideration is not always equal to the assessed value of the property. The consideration is what is paid for the interest being transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.	3.0% of consideration or fair market value	$ 5,078,000
TOTAL GENERAL FUND TAXES:			$3,147,582,000 (a)

PART B—OTHER SELECTED TAXES

TAX	DESCRIPTION OF WHAT IS TAXED	RATE	FY 2002 REVENUE
MOTOR VEHICLE FUEL TAX	Every importer of motor vehicle fuels, including gasoline, diesel fuel, benzol, benzene, naphtha, kerosene, heating oils, all liquefied petroleum gases and all combustible gases and liquids suitable for the generation of power for the propulsion of motor vehicles. *D.C. Code Citation: Title 47, Chapter 23.*	20¢ per gallon	$ 27,348,000

Source of General Fund Revenue Amounts: Government of the District of Columbia Comprehensive Annual Financial Report, Year Ended September 30, 2002, p. 91.
Notes: (a) Amount excludes transfers to the Convention Center Fund.
Prepared by the Office of Research and Analysis.

Table 4-21

General Fund Local Revenues by Source, Yearly Differences and Yearly Percentage Differences, Fiscal Years 2002-2004

($ thousands)

Revenue Source	FY 2002 Actual	FY 2003 (Revised)	FY 2004 (Original)	Difference FY02/FY03	Difference FY03/FY04	Pct. Diff. FY02/FY03	Pct. Diff. FY03/FY04
Real Property	726,014	818,936	920,723	92,922	101,787	12.8%	12.4%
Personal Property	65,208	65,271	65,362	63	91	0.1%	0.1%
Public Space	12,167	12,865	13,383	698	518	5.7%	4.0%
Total Property	**803,389**	**897,072**	**999,468**	**93,683**	**102,396**	**11.7%**	**11.4%**
General Sales (gross)	665,727	704,372	736,832	38,645	32,460	5.8%	4.6%
Convention Center Transfer	53,373	56,363	58,921	2,990	2,558	5.6%	4.5%
General Sales (net)	612,354	648,009	677,911	35,655	29,902	5.8%	4.6%
Alcohol	4,721	4,502	4,432	(219)	(70)	-4.6%	-1.6%
Cigarette	17,189	22,863	24,270	5,674	1,407	33.0%	6.2%
Motor Vehicle	34,573	33,273	32,164	(1,300)	(1,109)	-3.8%	-3.3%
Total Sales	**668,837**	**708,647**	**738,777**	**39,810**	**30,130**	**6.0%**	**4.3%**
Individual Income	949,175	924,206	923,537	(24,969)	(669)	-2.6%	-0.1%
Corporate Franchise	142,647	137,065	148,448	(5,582)	11,383	-3.9%	8.3%
U.B. Franchise	68,602	63,892	70,974	(4,710)	7,082	-6.9%	11.1%
Total Income	**1,160,424**	**1,125,163**	**1,142,959**	**(35,261)**	**17,795**	**-3.0%**	**1.6%**
Public Utility	140.931	151,754	156,164	10,823	4,410	7.7%	2.9%
Toll Telecommunications	55,353	64,958	72,094	9,605	7,136	17.4%	11.0%
Insurance Premiums	35,502	34,000	34,000	(1,502)	400	-4.2%	1.2%
Total Gross Receipts	**231,786**	**250,172**	**262,659**	**18,926**	**11,947**	**8.2%**	**4.8%**
Estate	125,889	39,808	42,459	(86,081)	2,651	-68.4%	6.7%
Deed Recordation	89,951	93,495	87,448	3,544	(6,047)	3.9%	-6.5%
Deed Transfer	62,228	70,905	65,547	8,677	(5,357)	13.9%	-7.6%
Economic Interests	5,078	707	596	(4,371)	(111)	-86.1%	-15.7%
Total Other Taxes	**283,146**	**204,915**	**196,050**	**(78,231)**	**(8,865)**	**-27.6%**	**-4.3%**
TOTAL TAXES	**3,147,582**	**3,186,509**	**3,339,913**	**38,927**	**153,403**	**1.2%**	**4.8%**
Licenses & Permits	50,195	61,872	63,462	11,677	1,590	23.3%	2.6%
Fines & Forfeits	86,539	104,162	100,439	17,623	(3,723)	20.4%	-3.6%
Charges for Services	55,472	49,281	50,121	(6,191)	840	-11.2%	1.7%
Miscellaneous Revenue	80,553	69,975	75,179	(10,578)	5,204	-13.1%	7.4%
TOTAL NON-TAX	**272,759**	**285,290**	**289,201**	**12,531**	**3,911**	**4.6%**	**1.4%**
Lottery/Interfund Transfer	63,000	68,600	70,200	5,600	1,600	8.9%	2.3%
GENERAL FUND	**3,483,341**	**3,540,399**	**3,699,314**	**57,058**	**158,914**	**1.6%**	**4.5%**

Table 4-21 (continued)

General Fund Local Revenues by Source, Yearly Differences and Yearly Percentage Differences, Fiscal Years 2002-2004

($ thousands)

Revenue Source	FY 2002 Actual	FY 2003 (Revised)	FY 2004 (Original)	Difference FY02/FY03	Difference FY03/FY04	Pct. Diff. FY02/FY03	Pct. Diff. FY03/FY04
Revenue Initiatives:							
TAXES:							
6% Surtax (0.6% tax) on net taxable income above $100,000	-	-	22,200	-	22,200	n/a	n/a
Add selected services to General Sales Tax Base at 5.75% rate	-	-	4,000	-	4,000	n/a	n/a
Increase current 12% parking rate to 18%	-	-	21,700	-	21,700	n/a	n/a
Suspend Tax Parity	-	-	24,000	-	24,000	n/a	n/a
Restart Tax Parity 3 years delayed	-	-	-	-	-	n/a	n/a
NON-TAX REVENUE:							
Parking Meters (1,500 new meters)	-	-	1,300	-	1,300	n/a	n/a
Marshal's Per Diem to General Fund	-	3,000	3,000	3,000	0	n/a	0%
INTRA-FUND TRANSFER:							
Housing Production Trust Fund Transfer to General Fund	-	-	9,000	-	9,000	n/a	n/a
E-911	-	-	2,000	-	2,000	n/a	n/a
Health Science Regulation	-	-	4,000	-	4,000	n/a	n/a
OTHER (Washington Center on Aging)	-	12,000	-	12,000	(12,000)	n/a	-100.0%
Total Revenue Initiatives	**-**	**15,000**	**91,200**	**15,000**	**76,200**	**n/a**	**508.8**
General Fund with Revenue Initiatives	**3,483,341**	**3,555,399**	**3,790,514**	**72,058**	**235,115**	**2.1%**	**6.6%**
Federal Project Funds	43,295	33,000	0	(10,295)	(33,000)	-23.8%	-100.0%
Total General Fund w/Fed. Proj. and Revenue Initiatives	**3,526,636**	**3,588,399**	**3,790,514**	**61,763**	**202,115**	**1.8%**	**5.6%**

Table 4-22

Local Fund Revenues, FY1992-FY2002

($ thousands)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Real Property	820,892	928,322	730,641	654,284	624,382	617,694	616,935	597,566	610,896	633,172	726,014
Personal Prop.	65,609	67,085	62,437	61,305	65,201	60,392	68,475	73,928	70,133	64,144	65,208
Public Space	16,818	16,256	17,931	14,754	12,052	9,513	10,030	8,056	11,752	10,107	12,167
Total Property	**903,319**	**1,011,663**	**811,009**	**730,343**	**701,635**	**687,599**	**695,440**	**679,550**	**692,781**	**707,423**	**803,389**
General Sales and Use	**442,496**	**410,068**	**458,555**	**485,651**	**467,527**	**482,354**	**525,087**	**541,573**	**585,688**	**617,217**	**612,354**
Alcohol	5,835	5,289	4,878	4,930	5,100	5,460	4,702	4,821	4,779	4,743	4,721
Cigarette	17,065	20,845	21,721	20,117	18,676	18,946	17,592	17,107	17,177	16,329	17,189
Motor Vehicle Fuel	28,586	34,780	36,107	34,617	n/a	n/a	n/a	n/a	n/a	n/a	0
Motor Vehicle Excise	22,108	24,268	27,456	30,440	31,668	30,271	29,838	31,329	36,693	38,825	34,573
Hotel Occupancy	8,660	9,485	8,757	8,352	7,420	3,806	5,369	(26)	0	25	0
Total Selective Sales	**82,254**	**94,667**	**98,919**	**98,456**	**39,088**	**58,483**	**57,501**	**53,231**	**58,649**	**59,922**	**56,483**
Ind. Income	620,208	589,521	650,660	643,676	689,408	753,475	861,505	952,156	1,077,346	1,098,188	949,175
Corp. Franchise	62,751	105,038	113,981	121,407	123,114	144,563	170,029	163,699	190,594	233,237	142,647
U.B. Franchise	25,126	35,960	36,227	39,272	31,031	38,942	45,767	53,896	70,624	68,812	68,602
Total Income	**708,085**	**730,519**	**800,868**	**804,355**	**843,553**	**936,980**	**1,077,301**	**1,169,751**	**1,338,564**	**1,400,237**	**1,160,424**
Insurance	31,785	32,187	31,208	34,703	33,121	42,625	37,096	26,944	30,882	33,356	35,502
Public Utility	115,297	127,245	134,228	131,012	144,842	141,901	141,069	128,472	132,849	149,125	140,931
Toll Tele. Tax	33,110	37,807	39,958	44,554	45,464	52,994	56,732	51,874	48,280	51,259	55,353
Health Care Prov. Fee		32,354	27,708	175	11,530	(8,278)	1,740	0	0	0	0
Public Safety Fee			10,097	468	0	0	0	0	0	0	0
Total Gross Receipts	**180,192**	**229,593**	**243,199**	**210,912**	**234,957**	**229,242**	**236,637**	**207,290**	**212,011**	**233,740**	**231,786**
Estate	29,922	38,680	11,714	16,807	32,175	27,314	32,256	26,247	35,992	51,072	125,889
Deed Recordation	17,831	20,245	23,547	22,691	33,099	30,821	53,863	70,398	60,418	75,936	89,951
Deed Transfer	19,944	21,506	21,980	21,826	26,701	27,162	42,597	47,001	44,660	62,086	62,228
Economic Interests	257	911	262	0	10	10,081	11,166	3,687	540	1,640	5,078
Total Other Taxes	**67,954**	**81,342**	**57,503**	**61,324**	**91,985**	**95,378**	**139,882**	**147,333**	**141,610**	**190,734**	**283,146**
TOTAL TAXES	**2,384,300**	**2,557,852**	**2,470,053**	**2,391,041**	**2,402,521**	**2,490,036**	**2,731,848**	**2,798,728**	**3,029,303**	**3,209,273**	**3,147,582**

Table 4-22 (Continued)

Local Fund Revenues, FY1992-FY2002

($ thousands)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Business Licenses & Permits	21,123	25,868	29,202	29,943	29,663	28,268	31,050	28,607	24,929	21,767	29,875
Non-Business Licenses & Permits	20,733	18,696	19,896	17,640	19,737	17,221	17,073	17,927	18,825*	19,627	20,320
Total Licenses & Permits	**41,856**	**44,564**	**49,098**	**47,583**	**49,400**	**45,489**	**48,123**	**46,534**	**43,754**	**41,394**	**50,195**
Fines and Forfeitures	**51,860**	**51,845**	**48,107**	**42,447**	**40,792**	**51,664**	**53,177**	**47,688**	**53,216**	**57,052**	**86,539**
Parking Meters	13,468	13,229	12,954	12,889	9,681	5,766	7,082	12,784	11,721	11,721	14,031
Other Charges	43,952	39,674	39,150	39,798	36,353	38,044	27,670	18,271	25,536	52,229	41,441
Total Charges for Services	**57,420**	**52,903**	**52,104**	**52,687**	**46,034**	**43,810**	**34,752**	**31,055**	**37,257**	**63,950**	**55,472**
Interest Income	23,255	7,171	7,995	17,994	13,917	18,599	32,478	41,289	12,779	33,317	9,645
Unclaimed Property	15,303	12,614	13,904	13,856	16,230	17,688	25,908	31,511	28,042	19,006	16,148
Other Revenues	13,693	12,975	25,353	21,984	11,870	34,642	40,750	13,940	61,337	87,963	54,762
Total Misc. Revenues	**52,251**	**32,760**	**47,252**	**53,834**	**42,017**	**70,929**	**99,136**	**86,740**	**102,158**	**140,286**	**80,555**
TOTAL NON-TAX REVENUES	**203,387**	**182,072**	**196,561**	**196,551**	**178,243**	**211,892**	**235,188**	**212,017**	**236,385**	**302,682**	**272,759**
TOTAL TAX & NON-TAX REVENUES	**2,587,687**	**2,739,925**	**2,666,614**	**2,587,592**	**2,580,764**	**2,701,928**	**2,967,036**	**3,010,745**	**3,265,688**	**3,511,955**	**3,420,341**
Tobacco Settlement	0	0	0	0	0	0	0	0	16,049	13,289	0
Lottery Transfer	48,500	66,875	69,050	85,100	75,250	69,200	81,300	64,225	69,450	86,858	63,000
Federal Payment/Contribution	643,772	635,930	647,930	660,000	660,000	665,702	198,000	0	0	0	0
Federal Project Funds	0	0	0	0	0	0	0	157,968	23,576	43,295	43,295
TOTAL GENERAL FUND REVENUE	**3,279,959**	**3,442,729**	**3,383,594**	**3,332,692**	**3,316,014**	**3,436,830**	**3,246,336**	**3,232,938**	**3,374,763**	**3,655,399**	**3,526,636**

Source: Comprehensive Annual Financial Report (various years); amounts beginning in FY 1998 are reported net of transfers to the Convention Center Fund.

Note: FY 1997 Total Revenue included $1.647 million from the sale of surplus property.

*Non-Business Licenses was derived from the difference between the total Licenses and Permits and the reported R*STARS Business Licenses and Permits Total.

Table 4-23

Non-Tax Revenue, by Source, FY 2002-2004

($ thousands)

Comptroller Object Code	Object Title	Actual FY 2002	Revised Estimate FY 2003	Original Estimate FY 2004
BUSINESS LICENSES AND PERMITS				
3001	INSURANCE LICENSES	1,684	5,876	3,470
3006	HACKERS LICENSES	283	361	423
3007	SECURITY BROKER FEES	2,602	2,038	2,006
3007	SEC REGISTRATION FEES	7,584	8,000	8,000
3009	SELF-UNLOADING PERMITS	758	845	967
3010	OTHER BUSINESS LICENSES	283	200	200
3012	BUILDING STRUCTURES & EQUIPMENT	10,207	12,051	12,810
3013	CERTIFICATE OF OCCUPANCY	282	355	362
3014	REFRIGERATION & PLUMBING PERMITS	1,910	1,820	1,885
3015	ELECTRICAL PERMITS	1,694	1,993	2,081
3016	PUBLIC SPACE EXCAVATION PERMITS	581	410	428
3020	BOXING/WRESTLING	0	75	79
3021	VENDOR BONDS	1,697	1,665	1,682
4879	INVESTMENT ADVISORS ACT	311	238	238
TOTAL BUSINESS LICENSES AND PERMITS		**29,876**	**35,927**	**34,631**
NONBUSINESS LICENSES & PERMITS				
3100	DRIVERS LICENSES	2,431	2,723	3,162
3110	BIKE REGISTRATION	1	1	2
3120	BOAT REGISTRATION	116	161	170
3130	OTHER NONBUSINESS LICENSE & PERMITS	14	21	22
3140	RECIPROCITY PERMITS	265	288	335
3150	PERSONALIZED TAGS	33	0	0
3150	DCTC ISSUANCE	232	0	0
3150	TEMPORARY TAGS	473	0	0
3150	TRANSFER TAGS	26	0	0
3150	MOTOR VEHICLE REGISTRATION	16,730	22,751	25,140
TOTAL NONBUSINESS LICENSES & PERMITS		**20,320**	**25,945**	**28,831**
TOTAL LICENSES & PERMITS		**50,196**	**61,872**	**63,462**

Table 4-23 (Continued)

Non-Tax Revenue, by Source, FY 2002-2004

($ thousands)

Comptroller Object Code	Object Title	Actual FY 2002	Revised Estimate FY 2003	Original Estimate FY 2004
FINES & FORFEITURES				
5000	HACKERS FINES	2	10	12
5010	TRAFFIC FINES	62,294	73,500	73,500
5010	RED LIGHT CAMERAS	6,540	7,290	7,290
5010	SPEEDING CAMERAS	16,334	20,500	16,775
5030	BOOTING FEES	660	810	810
5040	TOWING FEES	193	315	315
5050	IMPOUNDMENT FEES	215	332	332
5060	FINES/FORFEITURES - OTHER	301	1,405	1,405
TOTAL FINES & FORFEITURES		**86,539**	**104,162**	**100,439**
MISCELLANEOUS				
5300	WASA - P.I.L.O.T.	7,382	8,513	9,190
5600	INTEREST INCOME	9,645	11,587	14,541
5700	UNCLAIMED PROPERTY	16,148	16,250	17,063
6000	CONTRIBUTIONS	4	0	0
6100	SALE OF SURPLUS PROPERTY	12,168	401	437
6101	BUS SHELTER ADVERTISEMENT	1,186	1,200	1,200
6103	REIMBURSEMENTS (Dept. of Corrections)	15,930	12,800	12,800
6106	OTHER REVENUE	3,983	2,461	2,463
6106	MISCELLANEOUS OTHER REVENUE	1,538	62	63
6107	CIVIL INFRACTIONS	430	472	484
6108	COCOT REGISTRATION	4	3	3
6111	OTHER REVENUE	971	400	406
6118	PRIOR YEAR COST RECOVERY	11,166	0	0
N/A	TOBACCO RESIDUALS	0	5,348	4,297
N/A	TOBACCO COMMISSION TRANSFER	0	1,279	0
N/A	OTHER REVENUE	0	9,200	12,233
TOTAL MISCELLANEOUS		**80,555**	**69,975**	**75,179**
CHARGES FOR SERVICES				
3200	TELECO REGISTRATION	18	10	7
3201	HOME OCCUPATION LICENSES	84	117	122
3202	BOILER INSPECTION PERMITS	53	66	72

Table 4-23 (Continued)

Non-Tax Revenue, by Source, FY 2002-2004

($ thousands)

Comptroller Object Code	Object Title	Actual FY 2002	Revised Estimate FY 2003	Original Estimate FY 2004
3204	ELEVATOR INSPECTION	160	280	245
3206	FINGERPRINTS, PHOTOS	129	147	153
3207	CHARGES FOR SERVICES-OTHER	957	759	784
3208	REPRODUCTION OF REPORTS	1,385	1,691	1,727
3209	EMERGENCY AMBULANCE	6,391	8,925	8,825
3210	TRANSCRIPT OF RECORDS	297	360	368
3210	TAX CERTIFICATES	186	231	240
3210	DUPLICATE BILL FEES	13	4	4
3211	FIREARM USER FEES	5	7	7
3215	MOTOR VEHICLE TITLES	1,544	1,800	2,130
3216	SOLID WASTE DISPOSAL FEES	961	850	850
3219	WHARVES & MARKETS	29	38	44
3220	SURVEYOR FEES	253	267	275
3221	RECORDATION FEES	5,593	6,674	7,092
3222	CORPORATION RECORDATION	3,765	7,473	6,700
3223	PARKING FEES	38	0	0
3223	PARKING FEES/PERMITS	972	1,420	1,586
3224	STREET AND GUTTER ASSESSMENT	1	0	0
3228	CONDO REGISTRATION	34	24	26
3320	RIGHT-OF-WAY RENTALS	18,000	0	0
3400	PARKING METERS	14,031	15,500	16,219
3320	DCSS SERVICE CHARGE	0	1,500	1,500
N/A	OTHER	573	1,138	1,145
TOTAL CHARGES FOR SERVICES		**55,472**	**49,281**	**50,121**
TOTAL NON TAX REVENUE		**272,762**	**285,290**	**289,201**
OTHER				
6104	LOTTERY ADMINISTRATION	63,000	68,600	70,200